No. 95-1593

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

BEEBE BOURNE, d/b/a BOURNE CO.,

Petitioner,

—v.—

THE WALT DISNEY COMPANY
and BUENA VISTA HOME VIDEO,

Respondents,

TOWER RECORDS, INC., BARNES & NOBLE BOOKSTORES, INC., BLOCKBUSTER ENTERTAINMENT CORP., RKO WARNER VIDEO, INC. and JOHN DOES 1 THROUGH 100,

Defendants.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the first sale doctrine, embodied in 17 U.S.C. § 27 of the Copyright Act of 1909 and 17 U.S.C. § 109 of the Copyright Act of 1976, confers upon a non-exclusive licensee of the rights to record copyrighted music on the soundtrack of a motion picture and to give public performances of such recordings in connection with the exhibition of that film in theaters, the right to sell videocassette recordings of the copyrighted music to the public.

2. Whether non-exclusive licenses granting the right to use copyrighted music in "motion pictures" also impliedly grants the right to record the copyrighted music onto videocassettes and to sell those videocassettes, where:

   (a) Videocassette technology was unknown when the parties executed the licenses and was not to be invented for forty years; and

   (b) The licenses made no reference to any other future technologies yet to be developed.

3. Whether when older licenses are construed in light of later-invented technologies, the copyright owner-licensor, as opposed to a non-exclusive licensee, should have the burden of proving a negative: that rights in technologies and methods of distribution which were unknown at the time when the contract was entered into were not conferred by the licenses.

RULE 29.1 STATEMENT

Petitioner Beebe Bourne is a sole proprietor doing business as Bourne Co. and there are no parent companies, subsidiaries or affiliates which have issued shares to the public.

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Beebe Bourne d/b/a Bourne Co. ("Bourne") respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Second Circuit.

OPINIONS BELOW

The decision of the Court of Appeals sought to be reviewed is reported at 68 F.3d 621. (Pet. App. 1a-27a). Related decisions of the District Court and the Court of Appeals are reported at 1992 WL 170686, 1992 Copyright L. Dec. (CCH) ¶26,934 (S.D.N.Y.) (Pet. App.57a-71a), *rev'd*, 976 F.2d 99 (2d Cir. 1992) (Pet. App. 39a-44a); 1992 WL 204343, 1992 Copyright L. Dec. (CCH) ¶26,969 (S.D.N.Y. 1992) (Pet. App. 45a-56a); 1992 WL 489766, 1993 Copyright L. Dec. (CCH) ¶27,076 (S.D.N.Y. 1992) (Pet. App. 36a-38a).

JURISDICTION

The judgment of the Court of Appeals was entered on October 18, 1996. (Pet. App. 1a). The Court of Appeals denied a timely petition for rehearing and suggestion for rehearing in banc on January 3, 1996. (Pet. App. 72a-73a). The jurisdiction of this Court is invoked under 28 U.S.C. § 1254.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

United States Constitution, art. I, § 8, cl. 8

> The Congress shall have Power . . . To promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Investors the exclusive Right to their respective Writings and Discoveries.

17 U.S.C. § 27 (1909 Act); 17 U.S.C. § 101, 17 U.S.C. § 106, 17 U.S.C. § 109, 17 U.S.C. § 202 (1976 Act). (The full text of the statutory provisions involved is set forth in the accompanying Appendix (Pet. App. 102a-104a)).

STATEMENT OF THE CASE

This case presents issues of fundamental importance to copyright owners and licensees of rights in music, motion pictures, television, computer software and all new media, technologies and means of distribution. The case involves the fundamental question of whether copyright owner-licensors, rather than non-exclusive licensees, have the right to exploit newly-invented technologies where the agreement is silent on the question. Specifically, the first issue is whether, when a non-exclusive copyright license grants only the rights to record (17 U.S.C. § 106(1)) and publicly perform (17 U.S.C. § 106(4)) copyrighted songs in one medium (public theatrical film exhibition), the copyright owner-licensor may be dispossessed of her exclusive right to *distribute* recordings of such songs (17 U.S.C. § 106(3)) in another medium (videocassettes sold for private home use) by operation of the first sale doctrine (17 U.S.C. § 27 (1909, superseded); 17 U.S.C. § 109(a) (1976)). The second issue is whether a non-exclusive copyright license which grants only the rights to record and publicly perform the copyrighted songs in "motion pictures" also impliedly grants the right to make videocassette recordings of the songs where that new technology had not been invented at the time of contracting and could not have been within the contemplation of the parties. The remaining issue concerns whether the copyright owner should bear the burden of proving that rights in media and technological applications not yet invented were *not* conferred.

The matter before the Court involves the copyrights to the songs from the classic Walt Disney full-length feature films "Snow White and the Seven Dwarfs" and "Pinocchio," and presents the question of whether non-exclusive licenses, granting the rights to record the music on the soundtrack and to perform the music in connection with the theatrical exhibition of the films, include the rights to fix the music onto videocassettes and to sell them to the public. There are hun-

dreds of thousands of extant copyright licenses in the motion picture, television and music recording industries which will be affected by the resolution of this question due to the advent of videocassette, compact disc and CD-ROM technology. With the pace of technological change accelerating, with new entertainment media and channels of distribution constantly being invented, and with advances in software and hardware being made every day in the computer industry, countless future copyright licenses will be negatively impacted by the conflicting rules of interpretation created by this case. Because the interpretation of old contracts in light of new and future technologies represents potential revenues of hundreds of millions of dollars to copyright owners, authors and licensees, this case is of the utmost interest to the multi-billion dollar entertainment, publishing and computer industries. Also at issue in this case are the fundamental purposes of the copyright laws to motivate and protect the efforts of copyright authors and owners and the determination of how the underlying Constitutional principles are best served in our new digital world.

Petitioner Bourne is the copyright owner of the songs appearing in the films "Snow White" and "Pinocchio." Bourne's predecessor, Irving Berlin, Inc., acquired the copyrights from Disney in the 1930's, when Disney had no means to exploit such music apart from its performance in conjunction with the public exhibition of films. Realizing that there was additional revenue to be made from the sale and licensing of such music in such other media as piano rolls, sheet music, phonorecords and radio, Disney, as was the custom in those days, conveyed the copyrights in the songs from "Snow White" and "Pinocchio" in consideration for half the royalties received by Bourne, a prominent music publisher, from exploitation of the music in all media.[1] Pursuant to these

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[1] The full text of the 1937 "Snow White" agreement is located at JAX 885-87. Excerpts from the 1937 "Snow White" agreement are located at Pet. App. 95a-97a. Excerpts from the 1939 "Pinocchio" agreement are located at Pet. App. 98a-100a. The full text of the "Pinocchio"

agreements, Disney received from Bourne non-exclusive licenses of the right to record that music on its soundtracks in synchronism with the animated films (the right to reproduce) and to give public performances of the music in connection with the exhibition of the two films (the right to publicly perform).[2] (Pet. App. 99a, 101a).

Since theatrical film distribution was conducted by means of exhibition licenses to theaters, Disney did not need the right to sell film prints containing the copyrighted music and consequently the license agreements did not provide Disney with a right to sell. (Pet. App. 99a, 101a).

Videocassette technology was not invented until the 1970's. (JAX 221, 605, 676-78). Disney historically had a policy of prohibiting the exploitation of its full-length feature films in media other than theatrically-exhibited film. 68 F.3d at 626. (Pet. App. 9a). After unsuccessfully fighting to have the sale of videotape recorders enjoined as a contributory infringement of copyright in *Sony Corp. v. Universal City Studios Inc.*, 464 U.S. 417 (1984), and a change of management, Disney abandoned its policy and began to transfer its motion picture films to videocassette format for sale to the public and to create new derivative videos. The videocassettes at issue, for which no license was secured, consist of SingAlong Songs,

agreement is located at JAX 888-96. References to "JAX" are to the pages of the Joint Appendix in the Court of Appeals. Excerpts of the 1933 Shorts Agreement are reproduced at Pet. App. 101a. The full text of the 1933 Agreement is located at JAX 950-59.

[2] Actually, there is no license back to Disney with regard to "Snow White." The district court permitted the jury to consider a 1933 Agreement relating to a series of shorts, as applying to "Snow White." The Court of Appeals held, as a matter of law, that the 1933 Agreement did not apply to "Snow White." 68 F.3d at 627 (Pet. App. 11a-13a). Nevertheless, substituting itself for the factfinder, the Court of Appeals found an implied agreement between the parties relating to "Snow White" embodying the terms of paragraph 2 of the 1933 Agreement. Although this was clear error, for purposes of presentation of the legal issues herein, we will assume *arguendo* that there was such an implied agreement.

each of which is an audiovisual songbook featuring Bourne's songs and printed lyrics; a rock video, "Simply Mad About the Mouse," also featuring the printed lyrics; a videocassette version of the film "Pinocchio"; and a videocassette advertising trailer using Bourne's songs. Following the trial, Disney issued "Snow White" in videocasette format. Lacking both the right to record Bourne's copyrighted music on videotape and the right to sell those videocassettes without new licenses, Disney should have been adjudged an infringer of Bourne's copyrights.

Nevertheless, the Court of Appeals upheld Disney's actions on two insupportable premises. It held, contrary to all precedent, that the essential right to sell videocassettes, concededly not granted by the licenses, was supplied as a matter of law by the first sale doctrine, embodied in Section 27 of the 1909 Copyright Act and in Section 109 of the 1976 Copyright Act. It also held, equally illogically, that by using the term "motion pictures" in the 1930's licenses, the parties intended to include videocassette technology, notwithstanding that the medium was unknown, would not be invented for another forty years, and that the licenses contained no grant of future technology rights.[3] Finally, the Court of Appeals erred by shifting the burden of proof on Disney's affirmative defense of license to Bourne, requiring the copyright owner to prove a negative: that the parties intended to *exclude* videocassettes from the 1930's agreements, when the negotiators were dead and such technology did not even exist at the time.

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[3] Actually, in the 1939 "Pinocchio" agreement, the parties provided in paragraph 5 that Bourne would account to Disney for royalties received from licensing all types of recording media including "player rolls, . . . records, discs, electrical transcriptions or synchronization in motion pictures, *or other devices* for the mechanical reproduction of the said musical compositions. . . ." (Pet. App. 100a) (Emphasis added). It is therefore clear that the agreement contemplated that Bourne, as copyright owner, retained the rights to exploit the copyrights in all media.

REASONS FOR GRANTING THE PETITION

The Second Circuit's holding creates a clear split in the circuits on a fundamental and frequently-arising issue of federal copyright law. First, the ruling throws into doubt what had previously been a clear understanding of the narrow scope of the first sale doctrine (based upon decisions of this Court, as well as several circuit courts of appeals), opening a Pandora's box which permits judges to use the doctrine to re-write contracts in hindsight and frustrate the understandings of the original parties and the purposes of the copyright law. Second, it creates widespread confusion by establishing a rule of construction contrary to that of other circuits and prior Second Circuit precedent with regard to the copyright rights to new technologies. Rather than narrowly construing grants of rights so that the authors and copyright owners-licensors may share in revenues generated by newly-invented technologies, it construes such grants broadly, thus giving the substantial economic benefits of unforeseen technology solely to non-exclusive licensees. This is contrary to the Congressional intent behind the copyright laws to benefit authors and copyright owners in order to effectuate the Constitutional purpose of furthering the progress of the arts and sciences.

By holding that Section 109 of the Copyright Act confers a statutory right to *sell* where no such right had been conferred by the licenses, and that 1930's non-exclusive licenses of the right to synchronize the copyrighted songs in "motion pictures" included the right to make videocassette recordings of Bourne's music when that technology would not be invented for forty years and therefore could not possibly have been within the contemplation of the parties, the decision below upsets the established understandings and expectations of parties within the entertainment and computer industries, encourages forum shopping, yields disparate, controversial and unintended results, and frustrates the fundamental purposes of the Copyright Act and its Constitutional mandate.

The Second Circuit's holding conflicts with longstanding precedent concerning the narrow scope of the first sale doctrine: this Court's decision in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350-51 (1908), Judge Friendly's decision in *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2d Cir. 1963), decisions in the Third, Fourth and Ninth Circuits, the clear intent of Congress as evidenced by the legislative history, and the Nimmer Treatise and other scholarly articles. This grave error alone justifies the Court's review.

In stretching the language of two 1930's licenses to embrace 1970's videocassette technology, the Second Circuit also rejects established case law and saddles the copyright owner with the impossible burden of proving a negative, that early licenses unambiguously exclude technology which the parties could never know would be invented and imputes the contemporary meaning of the term "motion picture" into the minds of negotiators long since dead.

This cannot be squared with the prior decision of this Court in *Manners v. Morosco*, 252 U.S. 317 (1920), or the holdings of the First, Second, Third, Fifth, Ninth and District of Columbia Circuits, and other courts which have spoken to this issue, including decisions specifically addressing the advent of videocassette technology.

I. THE DECISION OF THE COURT OF APPEALS CONFLICTS WITH THE DECISIONS OF THIS COURT AND THOSE OF SEVERAL CIRCUITS ON SIGNIFICANT ISSUES OF COPYRIGHT LAW

A. THE DECISION OF THE COURT OF APPEALS IS CONTRARY TO THE WELL-ESTABLISHED INTERPRETATION OF SECTION 109 TO REQUIRE A "FIRST SALE" OR TRANSFER OF TITLE BEFORE TRIGGERING THE FIRST SALE DOCTRINE

In this case the Second Circuit acknowledged that Disney had no contractual right to sell copies of recordings of Bourne's copyrighted music under the licenses.[4] 68 F.3d at 632 n.4 (Pet. App. 26a) Disney's avoidance of liability was therefore entirely dependent upon the Court's interpretation of 17 U.S.C. § 27 (1909 Act)[5] and 17 U.S.C. § 109 (1976 Act)—the first sale doctrine—as authorizing the sale of videocassettes.

The Second Circuit's holding that the first sale doctrine conferred the right to sell upon a non-exclusive licensee is contrary to this Court's landmark holding in *Bobbs-Merrill*, *supra*. In that case, this Court held that the copyright owner must first dispose of physical possession of a particular copy by transfer of ownership in order for the first sale doctrine to

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[4] The right to distribute (which includes the right to sell) is encompassed within the exclusive rights granted to copyright owners. 17 U.S.C. § 106(3).

[5] "Since the copyrights at issue were registered during the 1930s, when the 1909 Act was in force, [Bourne's] claims must be analyzed under that act." *Bourne*, 68 F.3d at 631 n.2 (Pet. App. 23a). Section 109 restated and confirmed the first sale doctrine enacted in Section 27 of the 1909 Copyright Act. H. R. Rep. No. 1476, 94th Cong., 2d Sess. at 79 ("House Report"), *reprinted in* 1976 U.S. Code Cong. & Admin. News ("U.S.C.C.A.N.") 5659, 5693.

apply. *See also Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275, 280 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990); *Columbia Pictures Indus. v. Redd Horne, Inc.*, 749 F.2d 154, 159-60 (3d Cir. 1984); *United States v. Wise*, 550 F.2d 1180, 1189 (9th Cir.), *cert. denied*, 434 U.S. 929 (1977); *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2d Cir. 1963); *Independent News Co. v. Williams*, 293 F.2d 510 (3d Cir. 1961); *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 103 (9th Cir.), *cert. denied*, 364 U.S. 882 (1960); David Nimmer and Melville B. Nimmer, 3 *Nimmer on Copyright*, § 8.12[D] at 8-168.7 to 8-168.9 (hereinafter "Nimmer"); House Report at 80, *reprinted in* 1976 U.S.C.C.A.N. at 5694 ("Acquisition of an object embodying a copyrighted work by rental, lease, loan or bailment carries with it no privilege to dispose of the copy under Section 109(a) or to display it publicly under Section 109(b). To cite a familiar example, a person who has rented a print of a motion picture from the copyright owner would have no right to rent it to someone else without the owner's permission.").

The Second Circuit's holding is also inconsistent with its own landmark precedent in *Platt & Munk Co. v. Republic Graphics, Inc.*, *supra*, which held in accord with *Bobbs-Merrill*, *supra*, that the transfer of title by the copyright proprietor is a condition to the application of § 109 and that only the *particular* print or copy may thereafter be transferred without committing an infringement. 315 F.2d at 854. The Second Circuit's purported distinction of *Platt & Munk* as "a case where the party claiming the benefit of the first sale doctrine is simply a bailee," 68 F.3d at 632 (Pet. App. at 25a), is truly a distinction without a difference. Disney's non-exclusive synchronization licenses authorized recording and performance of Bourne's music for the limited purpose of theatrical exhibition.[6] As a result, Disney's license was akin to a bail-

[6] The Court's statement that Bourne licensed Disney "to exploit the copyrighted compositions," 68 F.3d at 632 (Pet. App. 25a), is simply erroneous. As the copyright owner, Bourne retained its exclusive rights

ment, in that no sale was authorized without Bourne's permission.

The Second Circuit's decision is also contrary to the Ninth Circuit's holding in *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 103 (9th Cir.), *cert. denied*, 364 U.S. 882 (1960), which held that a limited license to reproduce and distribute certain films "for strictly non-theatrical exhibitions" did not authorize the sale and commercial exhibition of one such film. Section 27 of the 1909 Act did not come into play because no transfer of title had occurred.

The Second Circuit's flawed holding renders meaningless the fundamental distinction between a "transfer of copyright ownership," which by definition includes an assignment or exclusive license, 17 U.S.C. § 101, and triggers the first sale doctrine, and a non-exclusive license, which is specifically excluded by that definition and consequently cannot constitute a "first sale."[7] *Compare* 17 U.S.C. § 101 *with* 17 U.S.C.

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to exploit the copyrights to the compositions, except for the limited non-exclusive license granted to Disney to record and perform the music through the theatrical exhibition of its films. Indeed, Disney in 1979 acknowledged Bourne's exclusive video rights to fix and sell when it bargained for and paid royalties to sell copies of its videocassette recording containing Bourne's "Snow White" songs. (JAX 1134-35).

The Court's statement mistakenly blurs the fundamental distinction between the right to publicly perform the music in connection with Disney's film exhibition and the right to sell videocassette recordings of Bourne's music. *See, e.g., Interstate Hotel Co. v. Remick Music Corp.*, 157 F.2d 744, 745 (8th Cir. 1946) (right to publish and sell and right to publicly perform are separate), *cert. denied*, 329 U.S. 809 (1947).

[7] In fact, even Disney's chief witness at trial and attorney, Peter Nolan, recognized this elementary predicate on more than one occasion. *See* Peter Nolan, *A Brighter Day for the Magic Lantern: Thoughts on the Impact of the New Copyright Act on Motion Pictures*, 11 Loy. L. Rev. 1, 35 n.208 (Dec. 1977) ("The 1976 Act makes plain that title must be conveyed in order for § 109 to become operative."); Peter Nolan, *All Rights Not Reserved After The First Sale*, 23 Bull. of Copyright Soc. 96, 78 (1975) ("The right to vend is not, however, limited at all under this codification of the first sale doctrine unless there is a sale or other transfer of title to a copy of the copyrighted work. . . .").

§ 109(d) (Section 109(a) does not apply to any person who has acquired possession of a copy "without acquiring ownership of it"); *see also Microsoft Corp. v. Harmony Computers & Elecs., Inc.*, 846 F. Supp. 208, 213 (E.D.N.Y. 1994) ("Entering a license agreement is not a 'sale' for purposes of the first sale doctrine.").[8] Such an interpretation of the Copyright Act is directly contrary to established precedent. *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d at 854; *Houghton Mifflin Co. v. Stackpole Sons, Inc.*, 104 F.2d 306, 311 (2d Cir.), *cert. denied*, 308 U.S. 597 (1939). This holding, which renders Section 106(3) of the Copyright Act inoperative in light of the expansive construction of Section 109, violates an elementary canon of statutory construction. *Colautti v. Franklin*, 439 U.S. 379, 392 (1979) ("[A] statute should be interpreted so as not to render one part inoperative"); *United States v. Menasche*, 348 U.S. 528, 538-39 (1955) (same).

The Second Circuit's reasoning at footnote 4 that "Disney . . . having received a license to produce videocassettes . . . but being unable to sell or otherwise dispose of the videocassettes . . . would make little sense" is totally circular. 68 F.3d at 632 n.4 (Pet. App. 26a). Disney received a license to synchronize Bourne's music with its "motion pictures" (as the parties understood that term in the 1930's) and to exhibit those films theatrically. It was not necessary that Disney have the right to make or sell videocassettes to realize the full commercial benefits of the licenses it received.[9]

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[8] The impact of the Second Circuit's holding with respect to computer software cases is highlighted by the *Microsoft* decision involving Microsoft MS-DOS and Microsoft Windows which, given this revolutionary interpretation of Section 109, would have mandated a different, wide-ranging result conferring the right to sell this computer software upon a non-exclusive licensee.

[9] The Second Circuit's mistaken citation, 68 F.3d at 632 (Pet. App. 25a) to 2 *Nimmer on Copyright* § 8.12[B][3] as authority for imposition of an involuntary implied license ignores the principle that "[a]n implied license . . . must not exceed the limits necessary to make the contract effective", *McCoy v. Mitsuboshi Cutlery, Inc.*, 67 F.3d 917, 920

The "sense" of the parties is more clearly demonstrated by the fact that when Disney recorded and sold its first "Snow White" videocassette in 1979, it secured a new and separate license and paid royalties to Bourne for this very right. (JAX 1119-20, 1133-35, 1128-29).

The Second Circuit's shifting of the burden of proof to Bourne to rebut the presumption of a first sale defense, not only conflicts with Second and Ninth Circuit precedent in *United States v. Larracuente*, 952 F.2d 672 (2d Cir. 1992); *Oddo v. Ries*, 743 F.2d 630 (9th Cir. 1984), respectively, but also with Congress's explicit intent that "in an action to determine whether a defendant is entitled to the privilege established by Section 109(a) and (b), the burden of proving whether a particular copy was lawfully made or acquired should rest on the defendants." House Report at 81, *reprinted in* 1976 U.S.C.C.A.N. at 5695. Given that the district court removed the question of whether the licenses at issue conferred the right to sell from jury consideration based upon Disney's assertion of its Section 109 defense,[10] this error was critical.

(Fed. Cir. 1995) (citing *Waterman v. Mackensie*, 138 U.S. 352 (1892)), *cert. denied*, ___ U.S. ___, 64 U.S.L.W. 3620 (1996), and the fact that Disney had for forty years profited from the limited licenses to exhibit the films theatrically.

[10] The Second Circuit compounded this error by letting stand the district court's improper jury instruction based upon Section 109, which eliminated all references to the right to sell, and its subsequent instruction to the jury that the *only* "kin[d] of righ[t]" . . . required . . . to produce" videocassettes is the right to "synchronize". This effectively directed a verdict as to videocassettes in favor of Disney. (JAX 775-76, 803-05, 843-47).

B. THE DECISION OF THE COURT OF APPEALS DISREGARDS PRIOR PRECEDENT OF THIS COURT AND CREATES A DIVISION BETWEEN THE CIRCUIT COURTS AS TO RECOGNITION OF THE COPYRIGHT OWNER'S RIGHTS TO FUTURE TECHNOLOGY

The Second Circuit's holding also destroys a judicial template which this Court embraced in *Manners v. Morosco*, 252 U.S. 317, 325-26 (1920), and which other courts including the First, Second, Third, Fifth, Ninth and District of Columbia Circuits, as well as New York state courts, have consistently followed. This rule requires that as between the copyright owner and non-exclusive licensee, rights to future technology must be determined by the plain meaning of the contract and the technologies existing at the time of the license.

In *Manners v. Morosco*, *supra*, this Court held that a contract which granted "the sole and exclusive license and right to produce, perform and represent" the play "Peg O' My Heart" did not confer the right to create a derivative motion picture. *Manners* rejected an approach taken by earlier courts, such as *Frohman v. Fitch*, 164 A.D. 231, 233-34, 149 N.Y.S. 633, 634 (1st Dep't 1914), which held that any new uses developed must be included as an originally granted right in order to avoid diminishing the value of the licensee's rights. *Manners* held that the only rights licensed are those for which the licensee has contracted and imposed the responsibility for obtaining rights to future technology upon the licensee.

Applying this scheme, the Second Circuit in *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150 (2d Cir.), *cert. denied*, 393 U.S. 826 (1968), held that the grant of motion picture rights can *only* be construed to include a grant of television rights when the latter medium was known and had been introduced to the market at the time of the grant, and where, therefore, the rights with respect thereto *could have been* intentionally reserved by the grantor. *Id.* at 154; *see also*

Kirke La Shelle Co. v. Paul Armstrong Co., 263 N.Y. 79, 85, 188 N.E. 163, 166 (1933) ("Since 'talkies' were unknown at the time when the contract was entered into, it cannot be said that 'talkie' rights were within the contemplation of the parties. . . .").

The Second Circuit's decision here did not even mention its prior landmark holding in *Bartsch*. The Court misconstrued the issue to be "whether . . . the term 'motion picture' [in a 1930's license] unambiguously *excludes* home videocassettes." 68 F.3d at 629 (Pet. App. 17a) (Emphasis added). As *Manners* and *Bartsch* make clear, the issue is not whether the term "excludes" anything, but whether an intent to grant (i.e., "include") rights to unknown technology may be inferred from the words used and their context. That issue already has been answered in the negative by other circuits and New York State courts considering after-invented video technology in the context of licenses issued later in time than Disney's. *See Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 853-55 (9th Cir. 1988) (1969 synch. license); *Rey v. Lafferty*, 990 F.2d 1379, 1387-91 (1st Cir.) (1970's contracts), *cert. denied*, ___ U.S. ___, 114 S. Ct. 94 (1993); *Bloom v. Hearst Entertainment. Inc.*, 33 F.3d 518, 524-25 (5th Cir. 1994); (1988 license); *Tele-Pac, Inc. v. Grainger*, 168 A.D.2d 11, 570 N.Y.S.2d 521 (1st Dep't) (1964 license), *appeal dismissed*, 79 N.Y.2d 822, 588 N.E.2d 99, 580 N.Y.S.2d 201 (1991); *General Mills Inc. v. Filmtel Int'l Corp.*, 195 A.D.2d 251, 599 N.Y.S.2d 820 (1st Dep't 1993) (1959 and 1960 contracts).

Judge Friendly's decision in *Bartsch* that "*Kirke La Shelle* teaches that New York will not charge a grantor with the duty of expressly saving television rights *when he could not know of the invention's existence*," which places the burden of expressly obtaining rights to unknown technology upon the licensee, is well-established. *Bartsch*, 391 F.2d at 154 (*citing Kirke La Shelle Co., supra*); *see also Ettore v. Philco Television Broadcasting Corp.*, 229 F.2d 481 (3d Cir.), *cert. denied*, 351 U.S. 926 (1956). Prior to the Second Circuit's

opinion herein, this rationale consistently has been followed, including by the Ninth Circuit in *Cohen v. Paramount*, *supra* at 854, the First Circuit in *Rey v. Lafferty*, *supra* at 1388; the Fifth Circuit in *Bloom v. Hearst*, *supra* at 525, as well as other courts. *See Brown v. Twentieth Century Fox Film Corp.*, 799 F. Supp. 166, 171-72 (D. D.C. 1992), *aff'd*, 15 F.3d 1159 (D.C. Cir. 1994); *Muller v. Walt Disney Prods.*, 871 F. Supp. 678, 683-84 (S.D.N.Y. 1994); *Maljack Prods. Inc. v. Goodtimes Home Video Corp.*, 30 U.S.P.Q.2d 1959, 1962 (C.D. Cal. 1994); *General Mills, Inc. v. Filmtel Int'l. Corp.*, 206 N.Y.L.J. 25 (Sup. Ct. Oct. 10, 1991), *aff'd*, 195 A.D.2d 251, 252, 599 N.Y.S.2d 820, 821 (1st Dep't 1993), *see also* Joanne B. Nakos, Comment, *An Analysis of the Effect of New Technology on the Rights Conveyed by Copyright License Agreements*, 25 Cumb. L. Rev., 433, 437 (1995) ("Any court should recognize that it was not possible to foresee certain developments in technology so as to provide for them by contract"); Jane C. Ginsburg, *Domestic and International Copyright Issues Implicated in the Compilation of Multimedia Product*, 25 Seton Hall L. Rev., 1397, 1408 (1995) ("[I]f the contract unambiguously states that the author grants rights in all media now know or later developed, courts may hold the author to that grant. However, if the contract is ambiguous as to its coverage of future modes of exploitation and if the new medium was 'completely unknown at the time when the contract was written,' courts will decline to interpret the contract as covering the new use.").

Contrary to the Second Circuit's contention, *Rey*, *Cohen*, and *Tele-Pac*, were not limited to a factual holding that "a grant of television rights does not include home videocassette rights." *Cohen* expressly held that a grant of rights for the exhibition of film in theaters and by broadcast on television did not confer videocassette rights because the dissimilarity between the technologies and markets for these media was obvious and because film and television "have very little in common" with videocassettes. *Cohen*, 845 F.2d at 853-54.

Given that the licenses at issue only spoke about the technologies addressed in *Cohen*, and given that New York state courts have followed *Cohen*, a similar result was mandated.[11] *See General Mills*, 195 A.D.2d at 252, 599 N.Y.S.2d at 821 (license granting "exclusive right in perpetuity to all exhibition rights (television and theatrical)" does not "extend to videocassettes or videodiscs for home use because these media comprise 'an entirely different device involving an entirely different concept and technology' "); *Tele-Pac, Inc. v. Grainger*, *supra*, 168 A.D.2d at 16-19, 570 N.Y.S.2d at 525.

"Motion pictures" meant only one thing in the 1930's—celluloid film. *See Patterson v. Century Prods., Inc.*, 93 F.2d 489, 493 (2d Cir. 1937) ("motion picture" and "film" used interchangeably), *cert. denied*, 303 U.S. 655 (1938); *Metro-Goldwyn-Mayer Distrib. Corp. v. Bijou Theatre Co.*, 59 F.2d 70, 76-77 (1st Cir. 1932) (same); *Metro-Goldwyn Mayer Distrib. Corp. v. Bijou Theatre Co.*, 3 F. Supp. 66, 71-73 (D. Mass. 1933) (same). The need for the express statement that "[Disney] reserves television rights" in the 1933 contract (JAX 954, ¶2) and the references to the United Artists theatrical distribution agreement ((JAX 954, ¶9), clearly reflects the parties' understanding that "motion pictures" was not used to describe all means of audiovisual exploitation, but rather was used only to license back to Disney the right to record the music in connection with the filming of comic cartoons for public release in theaters.[12]

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[11] Indeed, in the 1939 "Pinocchio" contract, Disney did not even reserve television rights, as it did in the 1933 Shorts Agreement, even though television technology was in existence. 68 F.3d at 629 (Pet. App. 18a).

[12] *Muller v. Walt Disney Productions*, 871 F. Supp. 678, 683-84 (S.D.N.Y. 1994), which dismissed plaintiff's copyright infringement action because a 1939 synchronization license from Leopold Stokowski to Disney granting "all rights of every kind" to the film "Fantasia" defined a "photoplay" as "a motion picture production, produced and/or exhibited with or accompanied by sound and/or reproducing and/or trans-

To compound its error, the Second Circuit mistakenly relied upon the post-1970's definition of the words "motion picture" taken from the 1971 Senate Committee Report to the Sound Recording Act and the Copyright Act of 1976 which concededly incorporated recently-invented videocassette technology. This reasoning runs afoul of this Court's rule that "the views of one Congress as to the meaning of an act passed by an earlier Congress are not ordinarily of great weight, and the views of the committee of one House of another Congress are of even less weight." *United States v. X-Citement Video, Inc.*, ___ U.S. ___, 115 S. Ct. 464, 471 n.6 (1994) (citations omitted); *United States v. Southwestern Cable Co.*, 392 U.S. 157, 170 (1968); *Heilman v. Bell*, 583 F.2d 373, 376-77 (7th Cir. 1978) (interpreting 1909 Copyright Act), *cert. denied*, 440 U.S. 959 (1979). This approach is at war with the *Manners* and *Bartsch* inquiry into the intent of the parties at the time of contract and the existence of available media of distribution at that time.

The Second Circuit's total departure from controlling precedent is underscored by its mistaken citation of *Bloom v. Hearst Entertainment Inc.*, *supra* at 525, for the proposition that "a general grant of motion picture rights is potentially broad enough to contemplate . . . [videocassettes] as [a] means of distribution." 68 F.3d at 630 (Pet. App. 20a). The cited Fifth Circuit dicta in *Bloom* is limited to the facts involving a 1988 license which led to the finding that "in June 1988 the use of video as a medium for the distribution of motion pictures was foreseeable. The home video may not have been an antiquity in 1988, but it certainly had been with us long enough for the appellants to be cognizant of its existence." *Id.* It is telling that the Second Circuit omitted reference to *Bloom*'s holding that "to satisfy the *Bartsch* test

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mitting devices, radio devices, television and all other improvements and devices which are now or hereafter may be used," *id.* at 680-81, demonstrates that Disney could have reserved similar future technology rights when it negotiated with Bourne for the rights to "Pinocchio" in the same year, if that had been its intent.

. . . *the new use [must] be foreseeable.*" *Id.* (Emphasis added). Precisely the opposite was true in the 1930's when, as the Second Circuit conceded, "the specific technology underlying today's VCRs was not available." 68 F.3d at 630 (Pet. App. 20a).

The Second Circuit's reliance upon the existence of "home viewing of motion pictures" as a basis for finding that videocassette technology was "within the contemplation" of persons in the 1930's, not only disregards *Manners* and *Bartsch*, but confuses market with technology. 68 F.3d at 630 (Pet. App. 20a). What people viewed at home in the 1930's was the same thing that was screened in theaters—celluloid film exhibited by means of a projector and a screen. The "technology" was identical. However, the uncontroverted evidence is that electronic and electromagnetic video recording and exhibition technology and market invented in the 1970's was wholly and fundamentally different from the mechanical film technology and market. (JAX 431-40, 631-32, 663-678, 701-22, 752-53, 1240); *see also Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 853-54 (9th Cir. 1988).

C. THE DECISION OF THE COURT OF APPEALS IMPERMISSIBLY SHIFTS THE BURDEN TO THE COPYRIGHT OWNER TO PROVE THE ABSENCE OF GRANT OF FUTURE TECHNOLOGY

The Second Circuit's erroneous conclusion that "where only the scope of the license is at issue, the copyright owner bears the burden of providing that the defendant's copying was unauthorized" (Pet. App. 22a), improperly shifts the burden of proof on Disney's affirmative defense of license to the copyright owner. This clashes with established precedent in the Second, Fifth and Ninth Circuits and Professor Nimmer's treatise, which all put the burden of establishing a license defense on the defendant. *United States v. Larracuente*, 952 F.2d 672, 673-74 (2d Cir. 1992); *CMS Software Design Sys., Inc. v. Info Designs, Inc.*, 785 F.2d 1246,

1247 (5th Cir. 1986); *Oddo v. Ries*, 743 F.2d 630, 634 n.6 (9th Cir. 1984); 3 *Nimmer, supra*, § 13.04 at 13-151. The Second Circuit's reliance upon dicta in *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081 (9th Cir. 1989), is misplaced because in that case the Ninth Circuit nevertheless correctly placed the burden of proof on the defendant. *Id.* at 1088 ("Payday has not demonstrated that it acquired any more than the right to possess a copy of the software for the purpose of producing 'product' for its customers."). Where the existence and scope of the license are coextensive because the technology at issue was not invented at the time of the grant, the Second Circuit's decision places an impossible burden upon the copyright owner to prove a negative.

The gravity of this error is underscored by the Court's unprecedented conclusion that "[c]opyright disputes involving only the scope of the alleged infringer's license . . . present . . . a question that is essentially one of contract . . . [where] the party claiming breach carries the burden of persuasion," which clashes with the fundamental distinction between copyright and contract cases and the longstanding principle that all rights not expressly granted are reserved by the copyright owner. *See S.O.S., Inc. v. Payday*, 886 F.2d at 1088 ("copyright licenses are assumed to protect any use not authorized"); *Cohen*, 845 F.2d at 853 (license analyzed to determine what uses it affirmatively permits); *Gilliam v. American Broadcasting Co.*, 538 F.2d 14, 20 (2d Cir. 1976) (an exercise of rights "may not exceed the specific purpose for which permission was granted."); *Bartsch*, 391 F.2d at 154.

II. THE QUESTIONS OF FEDERAL LAW DECIDED BY THE COURT OF APPEALS UNSETTLES THE LAW IN AN IMPORTANT AREA AND THEREFORE THE PUBLIC INTEREST REQUIRES THIS COURT'S REVIEW

As this Court noted in *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975):

> The immediate effect of our copyright law is to secure a fair return for an "author's" creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good. . . . When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose.

See also Sony Corp. v. Universal Studios, Inc., 464 U.S. 417, 429-30 (1984).

The royalties derived from Bourne's exploitation of the copyrights are shared with Disney, pursuant to the licenses, and with the original authors pursuant to agreement. If Disney, a non-exclusive licensee, were to retain all of the revenues from videocassettes, the original authors, as well as Bourne, the copyright owner, would get nothing. Consequently, in order for all parties, including Disney, to benefit from the invention of new technology, Bourne, as the copyright owner, must receive the benefit of newly-invented media and methods for exploiting its copyrights. *See* Neil R. Nagano, *Past Copyright Licenses and the New Video Software Medium*, 29 U.C.L.A. L. Rev. 1160, 1184-85 (1982) ("A court in a gray area situation should . . . realize that it would generally be fairest to hold that new use rights are not included in the licenses"). The Second Circuit's improper construction of the 1930's licenses and erroneous application of Section 109 deprive Bourne and the heirs of the original authors, of the benefits of copyright ownership and the fruits of their

labors to the detriment of the constitutional purpose of furthering the progress of the arts and sciences. *Mazer v. Stein*, 347 U.S. 201, 219 (1954).

When videocassette technology was first developed in the 1970's, the music and film industries, including Disney, modified or renegotiated for new consideration their synchronization licenses or provided in new licenses for the making and the distribution of video copies to the public for home use. (JAX 738-44; Brief of Amicus Curiae National Music Publishers' Association below ("NMPA Br.") 6-7). Thus, for decades two industries have understood and by their conduct have recognized that the early licenses which referred only to "motion pictures" were not sufficient to grant rights to fix copyrighted music onto videocassettes or to sell them. When Disney, as copyright owner, has negotiated synchronization licenses, it has been careful to distinguish between the rights to copy and perform and the right to sell videocassette copies. (*See, e.g.*, JAX 1321-24 (license for Walt Disney Music to Buena Vista Home Video for "Simply Mad About the Mouse"); JAX 1325-39 (Disney Form Synchronization License)).

The impact of the Second Circuit's decision is to throw the thousands of motion picture synchronization licenses, including those which have been rendered for videocassettes based upon *Bartsch* and its progeny, into question because of the split in the Circuits. It also leaves copyright draftspersons addressing the issue of new technologies—such as the "information superhighway," as well as those currently being developed or to be developed in the ever increasingly fast-paced "digital age"—without any uniform or reliable standards. (NMPA Br. 1-3).

The Second Circuit's dramatic *ad hoc* revision of Section 109 is by no means limited to videocassettes. It involves an issue of exceptional importance to authors and copyright owners. For example, as *amicus curiae* below, National Music

Publisher's Association, Inc., pointed out, "the many hundreds of thousands of licenses issued by HFA [Harry Fox Agency] on behalf of music publishers for the use of their songs in the making and distribution of phonorecords ("mechanical licenses") . . . by the . . . erroneous application of Section 109 . . . [will] be subject to claims that the recordings involved can be used under such mechanical licenses for non-phonorecord use and distribution." (NMPA Brief at 9).

Nor is the Second Circuit's holding with respect to the first sale doctrine restricted to copyright law, given "the historic kinship between patent law and copyright law" noted in this Court's opinion in *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984). Similar issues concerning the first sale doctrine have arisen in patent law. *See, e.g., McCoy v. Mitsuboshi Cutlery, Inc.*, 67 F.3d 917 (Fed. Cir. 1995), *cert. denied*, ___ U.S. ___, 64 U.S.L.W. 3620 (1996). The first sale doctrine has also been viewed as raising issues of paramount concern with respect to copyright licenses concerning computer software and multimedia. *See* Kenneth R. Corsello, Note, *The Computer Software Rental Amendments Act of 1990: Another Bend in the First Sale Doctrine*, 41 Cath. U.L. Rev. 177 (1991).

CONCLUSION

For the reasons herein stated, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

Nos. 1578, 1579—August Term, 1994

(Argued: June 29, 1995 Decided: October 18, 1995)

Docket Nos. 94-7793, 94-7847

BEEBE BOURNE, d/b/a Bourne Co.,

Plaintiff-Appellant-Cross-Appellee,

—v—

THE WALT DISNEY COMPANY and BUENA VISTA HOME VIDEO,

Defendants-Appellees-Cross-Appellants,

TOWER RECORDS, INC., BARNES & NOBLE BOOKSTORES, INC., BLOCKBUSTER ENTERTAINMENT CORP., RKO WARNER VIDEO, INC. and JOHN DOES 1 THROUGH 100,

Defendants.

Before:

VAN GRAAFEILAND and MINER, *Circuit Judges*, and COTE, *District Judge*.*

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* The Honorable Denise Cote of the United States District Court for the Southern District of New York, sitting by designation.

Appeal and cross-appeal from a judgment of the United States District Court for the Southern District of New York (Stanton, J.), entered after a jury trial, dismissing plaintiff's claim for copyright infringement based on defendants' sale of home videocassettes incorporating certain copyrighted musical compositions belonging to plaintiff, and awarding damages to plaintiff on its claim based on defendants' use of the musical compositions in paid television advertisements.

Affirmed.

STUART A. SUMMIT (George Berger, Theodore C. Max, Phillips, Nizer, Benjamin, Krim & Ballon, New York, NY, of counsel) *for Plaintiff-Appellant-Cross-Appellee.*

SANFORD M. LITVACK (Jacob M. Yellin, The Walt Disney Company, Burbank, CA, Clark E. Walter, Joanna R. Swomley, Dewey Ballantine, New York, NY, of counsel) *for Defendants-Appellees-Cross-Appellants.*

(Stephen H. Sulmeyer, Santa Monica, CA) for Karen Adams and Gretchen Thomas Anderson as *amici curiae.*

(Alan L. Shulman, Scott L. Baker, Silverman & Shulman, P.C., New York, NY, of counsel) for National Music Publishers' Association, Inc. as *amicus curiae.*

(Fritz E. Attaway, Motion Picture Association of America, Inc., Washington, DC, Jon A. Baumgarten, Charles S. Sims, Proskauer Rose Goetz & Mendelsohn, New York, NY, of counsel) for The Motion Picture Association of America, Inc. as *amicus curiae*.

(Dixon Q. Dern, Warren D. Dern, Dern & Vein, Los Angeles, CA, of counsel) for Video Software Dealers Association as *amicus curiae*.

MINER, *Circuit Judge*:

Plaintiff-appellant-cross-appellee Beebe Bourne, doing business as the Bourne Co. ("Bourne"), brought this copyright infringement action against defendants-appellees-cross-appellants Walt Disney Co. and Buena Vista Home Video (collectively, "Disney").

Bourne's first claim of infringement arose from Disney's sale of videocassette recordings featuring Bourne's copyrighted compositions from the motion pictures "Snow White and the Seven Dwarfs" and "Pinocchio" ("the Compositions"). Although the Compositions were written by Disney employees, Disney had assigned the copyrights in the Compositions to Irving Berlin, Inc. ("Berlin"), a music publisher and the predecessor-in-interest to Bourne, in the 1930s when the movies first were released.

While conceding that the instrument conveying Disney's copyrights in the Pinocchio compositions to

Bourne provided Disney with a license to use the compositions "in synchronism with any and all of the motion pictures which may be made by [Disney]," Bourne argued that these rights were insufficient to allow Disney to distribute the compositions on videocassette. With respect to the compositions from Snow White, Bourne argued that these copyrights were assigned to Bourne without the grant of a license to Disney allowing it to use the compositions. In Bourne's view, Disney had no right to use the compositions from Snow White until 1961, when Bourne conveyed certain rights to Disney in settlement of litigation then pending between the parties. The jury rejected each of Bourne's arguments.

Bourne's second copyright infringement claim related to Disney's use of the Compositions in television commercials. Bourne contended that the licenses granted to Disney did not provide Disney with the right to use the Compositions in these advertisements. The jury found in Bourne's favor on this claim. In so doing, the jury rejected Disney's argument that Bourne was estopped from asserting its interpretation of the license agreements. The parties stipulated to damages in the amount of $420,000.

On appeal, Bourne's principal contention is that the district court erred in failing to enter judgment as a matter of law in its favor on its claim regarding Disney's sale of videocassettes containing the Compositions. Bourne also argues that the district court improperly placed upon it the burden of proving that Disney's use of the Compositions was unauthorized. Finally, Bourne appeals from the district court's denial of certain ancillary relief in connection with its successful claim regarding the television advertisements. Disney cross-appeals, contending that the district court erred in failing to enter

judgment as a matter of law in its favor on its defense of estoppel. Disney also takes issue with certain aspects of the district court's jury charge. For the reasons that follow, we reject each of these challenges and affirm the judgment of the district court in its entirety.

BACKGROUND

1. The Agreements

a. The 1933 "Shorts" Agreement

Since 1928, Disney has been in the business of creating animated motion pictures. These films include music, which is synchronized to the movement depicted in the drawings. During the 1930s, Disney was best known for creating six- to eight-minute animated motion pictures, called "short subjects" or "shorts," featuring such characters as Mickey and Minnie Mouse, Goofy, and Donald Duck. At that time, Disney had no means of commercially exploiting the music featured in its shorts. In order to generate additional revenue from its musical compositions, Disney entered into an agreement with Berlin, one of the largest music publishers at that time.

Pursuant to a 1933 agreement between Berlin and Disney ("the 1933 Shorts Agreement"), Disney assigned the copyrights in the "musical compositions written for and used in connection with the synchronized motion picture comic cartoons of [Disney]" in exchange for a share of the revenues received by Berlin for use of the music. In derogation of the broad language set forth in the preamble of the agreement, paragraph nine limited the scope of the agreement in the following manner:

> [T]he motion picture comic cartoons contemplated herein shall be the remaining twenty-six (26)

> motion picture cartoons to be produced for the motion picture season of 1933-34, plus the following motion picture comic cartoons comprised within the series produced for the motion picture season of 1932-33: [listing titles of seven cartoons].

In order to allow Disney to use its musical compositions in connection with the animations for which they were written, paragraph two of the agreement granted back to Disney

> the right to record . . . such music, mechanically, and perform and license others to perform the same in connection with the respective motion picture for which such music was especially written, *the right to record such music mechanically in any and all other motion pictures to be produced by [Disney]*, the right to ship, import and export . . . any and all such mechanical recordings throughout the world, but only in connection with [Disney's] pictures. [Disney] reserves television rights in respect to its motion picture comic cartoons . . . .

(emphasis added).

The 1933 Shorts Agreement was extended by the parties during the next several years. In 1935, the parties enlarged the subject matter of the agreement to include the musical compositions contained in 18 additional Mickey Mouse and Silly Symphony cartoons. In 1936, the scope of the 1933 agreement again was expanded, this time to include the musical compositions contained in a series of cartoons to be distributed under an agreement with RKO Radio Pictures, Inc. The 1936 agreement was supplemented by a letter agreement in 1939 to include the "music and compositions contained in [Dis-

ney's] short subject motion pictures for the . . . 1937-38 and 1938-39" seasons.

b. Snow White and the 1937 Assignment Agreement

Disney's first feature-length film, Snow White, was exhibited in theaters beginning in December of 1937. Sometime before the movie's premiere, Disney assigned to Berlin the copyrights to eight musical compositions from Snow White. Pursuant to this agreement ("the 1937 Assignment Agreement"), Berlin agreed to pay Disney a share of the royalties that it received from licensees of these compositions. The printed-form agreement used to memorialize the copyright assignment did not reserve any rights to Disney, nor did it grant Disney a license to use the musical compositions in any manner. Notwithstanding this lack of an express license, Snow White was released in theaters on a number of occasions while the principals to the transaction still were alive, without complaint from Berlin or its successor, Bourne.

c. The 1939 Pinocchio Agreement

On August 15, 1939, Disney entered into a new and separate agreement with Berlin ("the 1939 Pinocchio Agreement"), assigning to Berlin the copyrights in (1) the compositions from Disney's full-length motion picture, Pinocchio, and (2) the short subjects comprising Disney's 1939-40 series, in exchange for certain royalties. This agreement specifically granted back to Disney

> the non-exclusive right to mechanically and/or electrically record the said musical compositions . . . in synchronism with any and all of the motion pictures which may be made by [Disney] and the right to export such recordings to all of the countries of the

> world, and the right to give public performances of such recordings in connection with the exhibition of the motion pictures with which said recordings were synchronised.

The parties agree that this agreement is fully integrated and is not dependent on any prior agreements.

d. The 1961 Settlement Agreement

In 1957, following the death of Saul Bourne, who was the owner of Bourne, Inc., Disney sued to recapture the copyrights in the Compositions, alleging that the copyrights were held in trust by Bourne on the condition that they would be assigned back to Disney upon demand. In its complaint, Disney described the 1933 Agreement as "relating to the music in certain short motion picture subjects;" the 1937 Assignment Agreement as the only agreement concerning Snow White; and the 1939 Pinocchio Agreement as the only contract concerning Pinocchio. The litigation was settled in 1961 by mutual agreement ("the 1961 Settlement Agreement"). Although the 1961 Settlement Agreement granted Disney a license in the theatrical motion picture and television grand performing rights in the Compositions, as defined by the American Society of Composers, Authors, and Publishers, nothing in the settlement agreement gave Disney the right to synchronize or fix the Compositions on videocassette.

2. Disney's Use of the Compositions

a. In General

At trial, Disney introduced substantial evidence that it had used the Compositions for decades in a variety of ways, without complaint from Bourne. As noted above,

Snow White was released in 1937 and re-released seven times thereafter. In connection with the re-releases of both Pinocchio and Snow White, Disney created theatrical trailers, using the Compositions, which were run as "coming attractions" in movie theaters. Disney also used the Compositions in connection with its weekly television show that began in 1954 and ran for almost four decades. In particular, the song "When You Wish Upon a Star" from Pinocchio was used as the standard opening and closing for the series. There also was evidence that Disney sold reel-to-reel movies containing the Compositions for home use.

b. Videocassettes

The first videocassette recording that Disney made and sold containing Bourne's copyrighted compositions was the subject of a 1979 license agreement between Bourne and Disney ("the 1979 Agreement"). Pursuant to this agreement, Disney received a license to manufacture and sell videocassette recordings of a live theatrical performance of the Snow White compositions held at Radio City Music Hall. Bourne received a 68 cent royalty for each videocassette sold.

In the early 1980s, Disney introduced videocassettes containing various animated pictures synchronized with Bourne's compositions. In 1985, Disney released the full-length motion picture Pinocchio on videocassette. Prior to this time, Disney had a policy of prohibiting the exploitation of its full-length feature films in media other than theatrically-exhibited film. Indeed, pursuant to Disney's policy, films such as Snow White and Pinocchio were exhibited in theaters every six to eight years. This policy was abandoned after a change in Disney's management in 1984. The Pinocchio videocassette

remained on Billboard's list of top-selling videocassettes for almost three years.

Since the release of Pinocchio, Snow White also has been distributed on videocassette. Besides the release of Disney's feature films, the Compositions have been used by Disney in connection with "sing-along" programs and certain cartoons.

c. Advertising

Disney also has used the Compositions in paid television commercials to advertise its theme parks and the theatrical releases of Snow White and Pinocchio. Overall, Disney utilized such paid television advertising infrequently and on a regional, rather than a national, basis until the mid-1980s. On several occasions, Disney obtained licenses from Bourne for the use of the Compositions in its commercials. In 1975, Bourne issued a license to Disney for a television commercial using the song "When You Wish Upon a Star" to promote Disneyland. In 1977, Disney paid Bourne a fee to use one of its copyrighted compositions from Snow White in connection with a television advertisement for Disney World and Eastern Airlines. Again, in 1985, Disney obtained a license from Bourne for the use of the Compositions in its television commercials.

In the majority of instances, however, Disney has used the Compositions in its paid television advertisements without obtaining a license from Bourne. In January of 1987, Disney began its "What's Next" series, in which it used the song "When You Wish Upon a Star" in a national television campaign without a license from Bourne. Disney also used the Compositions in television commercials to promote the theatrical releases of Pinoc-

chio in 1984 and Snow White in 1987, even though it had not obtained a license.

3. Proceedings Below

Following an eleven-day trial,[1] the jury returned a verdict in favor of Bourne on its second claim, finding that Disney infringed Bourne's copyrights by using the Compositions in television advertising. On Bourne's first claim, concerning Disney's right to use the Compositions in videocassettes, the jury found for Disney. The parties stipulated to the sum of $420,000 in damages. The district court denied Bourne's post-trial motions for attorney's fees and a new trial on the basis of newly discovered evidence, and granted its motions for costs and prejudgment interest.

DISCUSSION

1. Disney's Rights to Make and Sell Videocassettes

a. Disney's Rights in Snow White

Bourne argues that the district court erred in submitting to the jury the question of whether Disney has a license for the musical compositions from Snow White. Bourne bases this argument on its contentions that (1) Snow White clearly falls outside the scope of the 1933 Shorts Agreement, and (2) the 1937 Assignment Agreement, by which the copyrights in musical compositions from Snow White were assigned to Bourne, did not con-

[1] In an earlier appeal to this court, *Bourne Co. v. Tower Records, Inc.*, 976 F.2d 99 (2d Cir. 1992), we reversed the district court's grant of a preliminary injunction in favor of Bourne. We held that Bourne had failed to establish that it would suffer irreparable harm absent the issuance of an injunction, primarily because Disney had, for decades, used the Compositions for purposes other than the theatrical exhibition of motion pictures.

tain a provision granting rights back to Disney. Accordingly, Bourne argues that the district court erred in failing to enter judgment as a matter of law in its favor with regard to Snow White.

As to Bourne's first contention, we agree that the musical compositions from Snow White clearly fall outside the scope of the 1933 Shorts Agreement. In arguing that the agreement was ambiguous, Disney points to the broad language of the preamble of the 1933 Agreement, which states: "[Bourne] desires to acquire the copyrights for the musical compositions written for and used in connection with the synchronized motion picture comic cartoons of [Disney]." Disney reasons that, since Snow White is a "motion picture comic cartoon," the agreement could be read to include the Snow White compositions. We disagree.

Disney's construction of the preamble is belied by paragraph nine of the agreement, which provides:

> [T]he motion picture comic cartoons contemplated herein shall be the remaining twenty-six (26) motion picture cartoons to be produced for the motion picture season of 1933-34, plus the following motion picture comic cartoons comprised within the series produced for the motion picture season of 1932-33: [listing titles of seven cartoons].

Snow White's compositions clearly fall outside the scope of paragraph nine. Reading the contract as a whole, as we must, *see Kinek v. Paramount Communications, Inc.*, 22 F.3d 503, 509 (2d Cir. 1994), we conclude that Disney's reliance on the preamble is misplaced. Moreover, Disney's construction of the agreement is contradicted by the parties' subsequent agreements in 1935, 1936, and 1939, in which the parties enlarged "the subject mat-

ter" of the 1933 Shorts Agreement by adding certain motion picture comic cartoons "in addition to those set forth in paragraph '9' of the [prior] contract." Accordingly, we conclude that the Snow White compositions fall outside the scope of the 1933 Shorts Agreement.

However, our examination of the 1937 Assignment Agreement persuades us that it was not intended to be a complete integration of the mutual promises between Disney and Bourne, and, therefore, that extrinsic evidence of the implied grant of a license to Disney properly was admitted. Under New York law, where, as here, the written agreement does not contain a merger clause, the court must determine whether the agreement is integrated "by reading the writing in the light of surrounding circumstances, and by determining whether or not the agreement was one which the parties would ordinarily be expected to embody in the writing." *Braten v. Bankers Trust Co.*, 468 N.Y.S.2d 861, 864 (1983) (quoting *Ball v. Grady*, 267 N.Y. 470, 472 (1935)). The "[d]ecision in each case must, of course, turn upon the type of transaction involved, the scope of the written contract" and the content of any other agreements asserted. *Fogelson v. Rackfay Constr. Co.*, 300 N.Y. 334, 338 (1950).

We believe that the circumstances surrounding the 1937 Assignment Agreement compel the conclusion that the agreement was not intended to be an integration. If, as Bourne contends, the 1937 Assignment Agreement was intended to constitute the entire agreement concerning the musical compositions from Snow White, then Disney would have been left with no right to use the compositions in the original release of the motion picture in 1937 or in any of the subsequent releases. That Disney would relinquish, on the eve of Snow

White's theatrical release, all rights in the compositions that it composed specifically for use in the motion picture is highly implausible.

Other factors also weigh against finding that the agreement was intended to be an integration. First, for Disney not to have received a grant-back from Bourne would have marked a considerable departure from the prior business relationship between the companies. The prior agreements between the parties demonstrate that Disney, a motion picture producer, turned to Bourne, a music publisher, to exploit commercially the musical compositions that Disney created in connection with its motion pictures. In each instance, Disney retained certain rights in the compositions so as to allow Disney to continue to put them to the use for which they originally were written. Indeed, the use of the Compositions by Disney in connection with its motion pictures was essential to the purpose of the agreements, since Bourne's ability to exploit successfully the Compositions depended, in large part, on the success of Disney's motion pictures. *See Saxon Capital Corp. v. Wilvin Assocs.*, 600 N.Y.S.2d 708, 709 (1st Dep't 1993) ("[T]he condition [absent from the writing] was so central to the purpose of the [agreement] that the condition might well have been perceived by defendants as self-evident and its omission unremarkable.").

The parties' conduct subsequent to the agreement also weighs against finding that the 1937 Assignment Agreement was intended to be an integration. Berlin and its successor, Bourne, certainly were aware of Snow White's successful theatrical releases. Yet, Bourne never contended, until this litigation, that Disney did not have the right to use the musical compositions written for Snow White in synchronization with the motion picture.

Finally, we note that the 1937 Assignment Agreement was a printed-form contract, prepared by Bourne, and apparently signed without extensive negotiations or the involvement of legal counsel. *Cf. Braten*, 468 N.Y.S.2d at 864 (in concluding that the contract was a complete integration, the court relied on the fact that "[t]he parties and their counsel negotiated during a two-month period, resulting in a specially drawn document"). Based on the foregoing considerations, we are confident that a New York court would conclude that the 1937 Assignment Agreement was not intended to be a complete integration. *See Saxon*, 600 N.Y.S.2d at 709. Accordingly, extrinsic evidence properly was admitted to prove that the parties intended to grant back to Disney certain rights in the Snow White compositions.

Although there was little direct evidence of the specific terms of the grant-back, we believe that Disney presented persuasive evidence that the contracting parties intended the grant-back provisions set forth in the 1933 Shorts Agreement to govern Disney's rights to the Snow White compositions. The 1933 Shorts Agreement, which had been expanded in 1935 and 1936, was the only written agreement between the parties that delineated Disney's rights in musical compositions that it had turned over to Bourne to exploit. Furthermore, correspondence between the parties indicates that the compositions from Snow White were being delivered to Bourne "for the usual purpose," evincing an intent to have the matter controlled by a framework already established by the parties. Therefore, the evidence demonstrates an implied understanding between Disney and Bourne that Disney's rights to the Snow White compositions were to be controlled by the 1933 Shorts Agreement. Accordingly, we conclude that, while the compositions from Snow White

do not fall explicitly within the scope of the 1933 Shorts Agreement, the jury reasonably could have found that the parties implicitly incorporated the grant-back provision of the 1933 Shorts Agreement into the 1937 Assignment Agreement. Therefore, the district court did not err in submitting this matter to the jury.

b. Disney's Rights to Produce Videocassettes

Bourne argues that the district court also erred by submitting to the jury the question of whether the 1933 Shorts Agreement and the 1939 Pinocchio Agreement provided Disney with a license to synchronize the Compositions with its videocassette images ("videocassette rights"). Bourne contends that videocassette rights fall outside the specific language of the grant, and that, because videocassette technology was unknown at the time of the agreements, such rights could not have been within the contemplation of the parties.

The relevant principles of contract construction are well-established. The primary objective "is to give effect to the intent of the [contracting] parties as revealed by the language they chose to use." *Seiden Assocs., Inc. v. ANC Holdings, Inc.*, 959 F.2d 425, 428 (2d Cir. 1992). If the language of the contract is "unambiguous and conveys a definite meaning," then the interpretation of the contract is a question of law for the court. *Sayers v. Rochester Tel. Corp. Supplemental Management Pension Plan*, 7 F.3d 1091, 1094 (2d Cir. 1993); *see Seiden*, 959 F.2d at 428 (contract language "is not ambiguous when it has a definite and precise meaning . . . concerning which there is no reasonable basis for a difference in opinion" (internal quotations omitted)). Alternatively, "[w]here the language used is susceptible to differing interpretations, each of which may be said to be as rea-

sonable as another," then the interpretation of the contract becomes a question of fact for the jury and extrinsic evidence of the parties' intent properly is admissible. *Seiden*, 959 F.2d at 428; *see Walk-In Medical Ctrs., Inc. v. Breuer Capital Corp.*, 818 F.2d 260, 263 (2d Cir. 1987) (stating that language is ambiguous if it is "capable of more than one meaning when viewed objectively by a reasonably intelligent person who has examined the context of the entire integrated agreement and who is cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business" (internal quotations omitted)).

In order to analyze Bourne's contention that Disney has no right to produce videocassettes utilizing the Compositions, we first must look to the specific language of the grants. If the production of home videocassettes clearly falls outside the scope of the grants, then Disney's use of the Compositions was unauthorized as a matter of law, and, therefore, the district court erred in submitting this question to the jury.

The 1939 Pinocchio Agreement provided Disney with "the non-exclusive right to mechanically and/or electrically record the said musical compositions . . . in synchronism with any and all of the *motion pictures* which may be made by [Disney]." (emphasis added). Similarly, the 1933 Shorts Agreement, which we believe also controlled Disney's rights with respect to the compositions from Snow White, granted to Disney "the right to record such music mechanically in any and all other *motion pictures* to be produced by [Disney]." (emphasis added). As is apparent from the emphasized portions of the quoted language, the issue is whether, as Bourne contends, the term "motion picture" unambiguously excludes home videocassettes.

In support of this contention, Bourne makes several arguments. First, Bourne notes that, during the 1930s, the term "motion picture" was used to refer to the exhibition of projected images from celluloid film in a theater. In that sense, it was a reference to a specific type of medium for distributing images, rather than to the actual content of the work itself. This understanding of the term "motion picture" was supported by the testimony of Bourne's expert witness, Renville McMann, Jr., an expert in television and videocassette technology.

Bourne also relies on the fact that the 1933 Shorts Agreement specifically gave Disney the right to use the Compositions on television, while the 1939 Pinocchio Agreement did not expressly grant Disney television rights. From this, Bourne asks us to infer that the parties intended only a narrow transfer of rights in the 1939 Pinocchio Agreement. Bourne also asks us to infer that the parties perceived a difference between a motion picture and the broadcast of the same on television.

In addition, Bourne emphasizes that video cassette recorders ("VCRs") and videocassettes were unknown commercially at the time the agreement was signed. Bourne argues that both the First and Ninth Circuits, as well as the New York state courts, have held "that rights to future technologies such as videocassette recording are not conveyed where the technology was unknown at the time the parties entered into the bargain and no broad license of rights exists." In making this argument, Bourne relies on a line of cases which essentially have held that the grant of television rights does not include home videocassette rights. *See Rey v. Lafferty*, 990 F.2d 1379, 1390 (1st Cir.) (license to produce episodes "for television viewing" held not to include home videocassette rights), *cert. denied*, 114 S. Ct. 94 (1993); *Cohen v.*

Paramount Pictures Corp., 845 F.2d 851, 854 (9th Cir. 1988) (holding that the right to exhibit a motion picture "by means of television" does not include the right to distribute videocassettes of the film); *Tele-Pac, Inc. v. Grainger*, 570 N.Y.S.2d 521, 522 (1st Dep't 1991) (license to distribute the subject motion pictures "for broadcasting by television or any other similar device now known or hereafter to be made known" held not to include home videocassette rights). These cases, however, did not address the precise issue presented here: whether the grant of rights to synchronize musical compositions with "motion pictures" allows for videocassette synchronization.

While the arguments relied upon by Bourne are not entirely without merit, we cannot agree that the term "motion picture" has a sufficiently definite and precise meaning as to allow for interpretation as a matter of law. Rather than referring simply to the celluloid-film medium, we believe that the term "motion picture" reasonably can be understood to refer to

> a broad genus whose fundamental characteristic is a series of related images that impart an impression of motion when shown in succession, including any sounds integrally conjoined with the images. Under this concept the physical form in which the motion picture is fixed—film, tape, discs, and so forth—is irrelevant . . . .

S. Rep. No. 72, 92d Cong., 1st Sess. 5 (1971) (providing Congress' understanding of "motion pictures" under the Copyright Act of 1909). Peter Nolan, a long-time Disney employee, and Dr. Richard Koszarski, curator of the American Museum of the Moving Image, both testified in support of this understanding. As Dr. Koszarski

explained, there is no practical difference between storing a motion picture on film, videocassette, or any other storage media. We also note that Congress adopted the broader definition of the term "motion picture" in enacting the Copyright Act of 1976, 17 U.S.C. § 101. (" 'Motion pictures' are audiovisual works consisting of a series of related images which, when shown in succession, impart an impression of motion, together with accompanying sounds, if any.") Accordingly, we agree with the Fifth Circuit's decision in *Bloom v. Hearst Entertainment, Inc.*, 33 F.3d 518, 525 (5th Cir. 1994), in which the court held that "a general grant of motion picture rights is potentially broad enough to contemplate . . . [videocassettes] as [a] means of distribution."

Insofar as Bourne contends that, because videocassettes were unknown at the time of the agreement, their use could not have been within the contemplation of the parties, we disagree. While the specific technology underlying today's VCRs was not available during the 1930s, Disney introduced credible evidence demonstrating that home viewing of motion pictures was within the contemplation of persons in the motion picture industry during the 1930s. Indeed, even in the 1930s Disney made available certain short subject cartoons for home viewing. Furthermore, Disney's expert witness, Dr. Koszarski, testified regarding the non-celluloid methods of storing motion pictures that were under development during the 1930s.

Having concluded that the language of the grant to Disney reasonably is broad enough to cover videocassettes and that the possibility that Disney could market its motion pictures for home viewing was recognized by persons knowledgeable in the entertainment and motion picture industries, we believe that the district court properly

submitted to the jury the question of whether the 1933 Shorts Agreement and the 1939 Pinocchio Agreement provided Disney with the right to synchronize the Compositions to videocassettes containing its motion pictures.

c. Burden of Proof

Bourne contends that, even if the district court properly submitted the issue of contract interpretation to the jury, the court erred in its jury charge regarding the burden of proof. The district court charged the jury that Bourne, as the plaintiff-licensor, had the burden of proving that Disney's use of the Compositions was unauthorized. Bourne argues that a license is an affirmative defense to a claim of copyright infringement, and, therefore, that Disney had the burden of proving that its use of the Compositions was authorized.

Bourne is correct insofar as it contends that the possession of a license by an accused infringer traditionally has been characterized as a matter of affirmative defense. *See, e.g.*, Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 13.01 ("Nimmer"). However, in most of the cases addressing the defense of license, the issue has been whether a license is held by the accused infringer. *See, e.g., CMS Software Design Sys., Inc. v. Info Designs, Inc.*, 785 F.2d 1246, 1247 (5th Cir. 1986). Since, in such cases, evidence of a license is readily available to the alleged licensee, it is sensible to place upon that party the burden of coming forward with evidence of a license. *See United States v. Larracuente*, 952 F.2d 672, 674 (2d Cir. 1992) (holding that a defendant charged with criminal copyright infringement bears the burden of producing evidence of a sub-license).

In this case, however, there is no dispute that Disney received from Bourne various licenses to copyrighted

compositions. The only dispute is whether Disney's synchronization of the Compositions with its home videocassettes and its use of the Compositions in its television commercials fall within the scope of the existing licenses. *See Gilliam v. American Broadcasting Cos.*, 538 F.2d 14, 20 (2d Cir. 1976) (licensee infringes owner's copyright if its use exceeds the scope of the license). Thus, the only dispute here is the scope of the licenses, not their existence.

We conclude that, in cases where only the scope of the license is at issue, the copyright owner bears the burden of proving that the defendant's copying was unauthorized. *See S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 (9th Cir. 1989) ("To prevail on its claim of copyright infringement, [the copyright owner] must prove . . . 'copying' of protectible expression by [the accused infringer] beyond the scope of [the] license."); *Microsoft Corp. v. Harmony Computers & Electronics, Inc.*, 846 F. Supp. 208, 210 (E.D.N.Y. 1994); *see also NLFC, Inc. v. Devcom Mid-America, Inc.*, 45 F.3d 231, 235 n.5 (7th Cir.), *cert. denied*, 115 S. Ct. 2249 (1995). Copyright disputes involving only the scope of the alleged infringer's license present the court with a question that essentially is one of contract: whether the parties' license agreement encompasses the defendant's activities. Just as in an ordinary contract action, the party claiming a breach carries the burden of persuasion. *See Gordon v. Leonetti*, 324 F.2d 491, 492 (2d Cir. 1963).

d. Disney's Right to Distribute Videocassettes

Bourne further argues that, even if Disney had the right to synchronize the Compositions with videocassettes, Disney had no right to sell or publicly distribute the videocassettes that it produced. Bourne asserts that

Disney needed two separate grants from Bourne to make and distribute videocassettes containing the synchronized Compositions: (1) the right to copy (or record) the Compositions in synchronization with Disney's motion pictures; and (2) a separate right to sell or distribute the videocassettes. Since the grants to Disney do not specifically include the latter right, Bourne argues, Disney's sale and distribution of its videocassettes constitute an infringement of Bourne's copyrights in the Compositions, even if the license granted Disney the former right.

Under the Copyright Act of 1909 ("the 1909 Act"),[2] the copyright holder has the exclusive right to "publish . . . and vend the copyrighted work." 17 U.S.C. § 1(a) (1909 Act). Although Disney has been "vending" works without any express license from Bourne, Disney contends that its activities fall within the first sale doctrine. Section 27 of the 1909 Act provides:

> The copyright is distinct from the property in the material object copyrighted, and the sale or conveyance . . . of the material object shall not of itself constitute a transfer of the copyright . . . ; but nothing in this title shall be deemed to forbid, prevent, or restrict *the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.*

17 U.S.C. § 27 (1909 Act) (emphasis added). A similar provision appears in the Copyright Act of 1976. *See* 17 U.S.C. § 109.[3] These provisions generally are considered

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[2] Since the copyrights at issue were registered during the 1930s, when the 1909 Act was in force, plaintiff's claims must be analyzed under that act. *See Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 553 (2d Cir. 1995).

[3] Section 109 provides that, "[n]otwithstanding the [copyright owner's exclusive right to distribute copies granted by 17 U.S.C. § 106(3)], the owner of a particular copy or phonorecord lawfully made . . . is entitled,

to enunciate the first sale doctrine. *See* Nimmer, *supra*, § 8.12[B]. Disney argues that, since it was authorized under the various license agreements to synchronize the Compositions with its videocassettes, the first sale doctrine permits it to transfer the resulting videocassettes as it sees fit.

In *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2d Cir. 1963), this court noted that, while the language of section 27 is quite expansive, a literal reading of the statute is unacceptable, stating that

> [i]f lawful possession by another sufficed to deprive the copyright proprietor of his right to control the transfer of the copyrighted objects, any bailee of such objects could sell them without infringing the copyright . . . . In view of the necessary role played by manufacturers, shippers, and others in producing and distributing copies of copyrighted works, . . . a copyright proprietor could not present his work to the public without risking the loss of part of his copyright protection.

Id. at 851. The court also noted that a literal reading of the statute would leave a "purchaser of a copy from a conceded pirate . . . free to resell" the copy. *Id.* Rather than looking simply at whether the lawful possession of the copy has passed, we framed the issue as "whether or not there has been such a disposition of the article that it may fairly be said that the . . . [copyright proprietor] has received his reward for the use of the article." *Id.* at 854 (quoting *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942)).

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without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." 17 U.S.C. § 109.

Relying primarily on *Platt & Munk*, Bourne contends that the first sale doctrine is inapplicable here. Bourne argues that Disney, even if it lawfully possessed the videocassettes, did not acquire the videocassettes as the result of a "first sale" by Bourne, the copyright owner. Since no transfer of copies passed from Bourne to Disney, Bourne argues that no "first sale" has occurred. We disagree.

In our view, Bourne reads our decision in *Platt & Munk* too broadly. This is not a case where the party claiming the benefit of the first sale doctrine is simply a bailee that acquired a possessory interest in the goods. For example, the possessor of the copies in *Platt & Munk* was an unpaid manufacturer of goods that were alleged to be defective by the copyright proprietor who had ordered them. 315 F.2d at 849. Here, the party claiming the benefit of the first sale doctrine, Disney, was licensed by Bourne to exploit the copyrighted compositions in connection with its motion pictures. Having so licensed Disney, we do not see any good reason why Disney should not be able to dispose of these lawfully made copies as it wishes. *Accord* Nimmer, § 8.12[B][3].

Bourne also asserts that it received no "reward" for Disney's sale of copies of videocassette recordings containing the Compositions. This assertion, however, ignores the circumstances by which Bourne came to own these copyrights. As discussed above, the Compositions at issue here were created by Disney. Disney, in turn, conveyed these valuable copyrights to Bourne in exchange for, *inter alia*, a broad grant to Disney that would allow it to exploit the Compositions in connection with its motion pictures. Under the circumstances of this case, "it may fairly be said that [Bourne] has received

[its] reward for the use of the article."[4] We therefore reject Bourne's contention that Disney's sale of videocassettes constituted infringement of Bourne's exclusive right to vend.

2. Bourne's Other Contentions

Bourne objects to the district court's denial of certain ancillary relief in connection with the jury verdict in its favor on its advertising claim. We see no abuse of discretion in any of the district court's determinations regarding ancillary relief.

We have considered Bourne's remaining contentions and find them all to be without merit.

3. The Cross-Appeal

Disney's principal contention on its cross-appeal is that the district court should have entered judgment as a matter of law on its affirmative defense of estoppel. Judgment as a matter of law cannot be granted on an issue if "there is [a] legally sufficient evidentiary basis for a reasonable jury to find" to the contrary. *See* Fed. R. Civ. P. 50. Our review of the record persuades us that a reasonable trier of fact could have found that Disney had not relied detrimentally on Bourne's conduct. *See General Elec. Capital Corp. v. Armadora, S.A.*, 37 F.3d 41, 45 (2d Cir. 1994). In particular, we note that Disney continued to obtain licenses from Bourne for the use of the Compositions in television advertisements during the 1970s and mid-1980s, and that Disney's paid television

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[4] We also note that a contrary interpretation would leave Disney in the position of having received a license to produce videocassettes of its motion pictures for home viewing by consumers, but being unable to sell or otherwise dispose of the videocassettes. This would make little sense. *See* Nimmer, *supra*, § 10.10[C].

advertisements were infrequent up and through this time period. While Disney certainly provided strong evidence of estoppel, we believe that the jury was entitled to decide this issue in favor of Bourne.

We have considered Disney's remaining contentions and find them all to be without merit.

CONCLUSION

In view of the foregoing, we affirm the judgment of the district court.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

91 Civ. 344 (LLS)

94-1396

Filed July 7, 1994

BEEBE BOURNE d/b/a/ BOURNE CO.

Plaintiff,

—against—

THE WALT DISNEY CO., and BUENA VISTA HOME VIDEO,

Defendants.

JUDGMENT

This action having been bifurcated on issues as to liability and damages by the Court, and having come on for trial on the issue of liability before the Court and a jury, the Honorable Louis L. Stanton, presiding; the jury having returned a verdict for defendants on the first claim of the complaint and for plaintiff on the second claim of the complaint; the court having determined damages in the sum of $420,000; and the Court having rendered its memorandum and order on June 8, 1994 awarding plaintiff prejudgment interest, injunctive relief and costs as prescribed by 28 U.S.C. § 1920; it is

ORDERED, ADJUDGED AND DECREED that:

1. The first claim of the complaint is hereby dismissed;

2. Plaintiff shall prevail on the second claim of the complaint and is given the following relief:

a. Defendants, their officers, agents, servants, employees, successors, assignees and licensees and attorneys and those persons in active concert or participation with them who receive actual notice of this judgment by personal service or otherwise are hereby enjoined from using any of the following songs in paid television advertisements and promotions without a license from plaintiff: Bluddle-Uddle-Um-Dum; Dwarfs' Yodel Song; Figaro & Cleo; Give A Little Whistle; Heigh Ho; Hi-Diddle-Dee-Dee (An Actor's Life For Me); Honest John; I'm Wishing; I've Got No Strings; Jiminy Cricket; Little Wooden Head; Monstro The Whale; One Song; Pinocchio; Some Day My Prince Will Come; Turn On The Old Music Box; When You Wish Upon A Star; Whistle While You Work; With A Smile And A Song;

b. Plaintiff shall recover of the Defendants the principal amount of $420,000, together with prejudgment interest, as ordered by the Court, in the amount of $43,382.15, for a total of $463,382.15;

c. Plaintiff shall recover its costs, to be taxed by the Clerk of the Court in accordance with 28 U.S.C. § 1920;

d. The total of the sums awarded above shall bear interest at the rate provided by law from the date of entry of this judgment until the date paid to plaintiff.

Dated: New York, New York
July 7, 1994

LOUIS L. STANTON
U.S.D.J.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

91 Civ. 0344 (LLS)

BOURNE CO.,

Plaintiff,

—against—

THE WALT DISNEY COMPANY, et al.,

Defendants.

MEMORANDUM AND ORDER

Following an eleven-day trial, the jury returned a verdict in favor of plaintiff Bourne Co. ("Bourne") on its second claim, finding that defendants infringed Bourne's copyrights by using musical compositions from the movies "Snow White and the Seven Dwarfs" and "Pinocchio" in television advertising and promotions. On the first claim, which concerns the right to use the compositions in videocassettes, the jury found for defendants.

The parties stipulated to the sum of $420,000 in damages. Now at issue are Bourne's motions for attorney's fees, costs, prejudgment interest and injunctive relief. Bourne also moves under Fed. R. Civ. P. 60(b)(2), on the basis of newly discovered evidence, for relief from this court's order dated May 26, 1993, denying its motion for judgment as a matter of law on the first claim. Defendants move for sanctions.

1. *Relief Under 60(b)*

Bourne moves for relief from the May 26, 1993 order denying its motion under Fed. R. Civ. P. 50(b) for judgment as a

matter of law on the first claim. It argues that defendants The Walt Disney Company and Buena Vista Home Video should be estopped from asserting that Section 109 of the Copyright Act, 17 U.S.C. § 109,[1] confers the right to sell videocassettes containing Bourne's copyrighted music because in prior litigation, *Warner Bros., Inc. v. Kalish*, 1979 Copyright Law Rptr. (CCH) ¶ 25,052 at 15,282 (W.D.N.Y. August 7, 1978), they prevailed on an inconsistent interpretation of Section 109.

In order to vacate the May 26, 1993 order on the basis of newly discovered evidence, Bourne "must present evidence that is 'truly newly discovered or . . . could not have been found by due diligence.' " *United States v. Potamkin Cadillac Corp.*, 697 F.2d 491, 493 (2d Cir.), *cert. denied*, 462 U.S. 1144, 103 S. Ct. 3128 (1983), quoting *Westerly Electronics Corp. v. Walter Kidde & Co.*, 367 F.2d 269, 270 (2d Cir. 1966). *See also Scutieri v. Paige*, 808 F.2d 785, 794 (11th Cir. 1987) "Evidence that is contained in the public records at the time of trial cannot be considered newly discovered evidence.").

Bourne learned of the defendants' interpretation of Section 109 at trial, but did not raise estoppel then. Nor did it raise the argument in its Rule 50(b) motion, despite the fact that it addressed Section 109 thoroughly in its briefs. Because the *Kalish* decision, and the motion papers in that case, were a matter of public record at the time of the trial, the proffered evidence cannot be considered "newly discovered."

In any event, estoppel does not apply here. "First, the party against whom the estoppel is asserted must have argued an inconsistent position in a prior proceeding; and second, the prior inconsistent position must have been adopted by the

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[1] Section 109 states:

(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

Court in some manner." *Bates v. Long Island R.R. Co.*, 997 F.2d 1028, 1038 (2d Cir.), *cert. denied*, 114 S. Ct. 550 (1993). In *Kalish*, the court found that the defendant had no rights to the copyrighted works. *Kalish*, 1979 Copyright Law Rptr. (CCH) ¶ 25,052 at 15,287. In contrast, here the jury determined that defendants lawfully acquired the right to use the musical compositions in videocassette format. Given the different factual setting, the defendants' argument that Section 109 confers the right to sell videocassettes is not estopped by defendants' argument in the earlier proceeding. Bourne's motion is denied.

Nevertheless, the motion was not frivolous, and thus the defendants' motion for sanctions is also denied. *See Oliveri v. Thompson*, 803 F.2d 1265, 1275 (2d Cir. 1986) ("rule 11 is violated only when it is 'patently clear that a claim has absolutely no chance of success.' "), *cert. denied*, 480 U.S. 918, 107 S. Ct. 1373 (1987).

2. *Attorney's Fees and Costs*

The Copyright Act states that in its discretion a court may award costs "by or against any party" and "a reasonable attorney's fee to the prevailing party." 17 U.S.C. § 505. In *Fogerty v. Fantasy, Inc.*, 114 S. Ct. 1023, 1033 (1994), the Supreme Court rejected the argument that prevailing parties in copyright cases "should be awarded attorney's fees as a matter of course, absent exceptional circumstances." The Court stated: "The word 'may' clearly connotes discretion. The automatic awarding of attorney's fees to the prevailing party would pretermit the exercise of that discretion." *Id.*

Among the factors that may justify the denial of fees to a prevailing plaintiff is "the presence of a complex or novel issue of law that the defendants litigate vigorously and in good faith." *Boz Scaggs Music v. KND Corp.*, 491 F. Supp. 908, 915 (D. Conn. 1980). *See also Bourne Co. v. MPL Communications, Inc.*, 678 F. Supp. 70, 72 (S.D.N.Y. 1988) ("Given the novelty of the issues involved in this action, and the lack of any bad faith on the part of the defendants, the

Court declines to award costs or attorney's fees to plaintiff."); *Encyclopaedia Britannica Educational Corp. v. Crooks*, 542 F. Supp. 1156, 1186-87 (W.D.N.Y. 1982) (interests of justice served by refusing to award fees in case involving novels, unsettled, or complex problems); *Roy Export v. Columbia Broadcasting Sys.*, 503 F. Supp. 1137, 1155 (S.D.N.Y. 1980) ("good faith or bad faith in this context depends in large part on the substantiality of the defense offered as justification for the offending act").

This case involved unsettled issues of fact and law. The trial presented the unusual question whether the term "motion picture" included television advertising and videocassettes, even though those uses were not commercially available in the 1930's when the contracts were executed. The estoppel defense based on Bourne's non-enforcement of its rights for decades, although not accepted by the jury, was a fair ground for litigation.

At the the end of an extensive and contentious period of discovery and an 11-day trial (after an earlier mistrial) Bourne prevailed on no more than half of its claims. In the exercise of discretion, its application for attorney's fees is denied. Its costs are allowed under 28 U.S.C. § 1920, to be taxed by the clerk if counsel cannot agree on the amounts.

3. *Equitable Relief*

"A plaintiff must show liability and the threat of continuing violation to be entitled to an injunction." *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522, 1542 (S.D.N.Y. 1991). The extensive use of the musical compositions by Disney and its licensees in the past, and the difficulty of detecting infringements threaten continuing violation sufficiently for a permanent injunction requiring defendants to obtain a license before using any of the musical compositions in television advertisements and promotions is granted.

Bourne's application for an order directing defendants to account for all its unlicensed television advertisements and promotions is denied. At this point, the relief ordered should

rest upon the proof at trial. Bourne's request for the surrender and destruction of all infringing tapes and recordings is also denied. Its rights are adequately protected by the injunction.

4. *Prejudgment Interest*

In stipulating to $420,000 in damages, Bourne specifically reserved its right to seek prejudgment interest. (Affidavit of Sanford M. Litvack sworn to January 24, 1994, ex. A.) Although the Copyright Act is silent as to prejudgment interest, and the issue "remains unresolved in this Circuit," *In Design v. K-Mart Apparel Corp.*, 13 F.3d 559, 569 (2d Cir. 1994), the court finds that such an award is necessary for Bourne to be sufficiently compensated. *See Kleiser Advertising, Inc. v. Premier Pontiac, Inc.*, 921 F.2d 1036, 1041 (10th Cir. 1990) ("It would be 'anomalous' to hold that a plaintiff would be entitled to recover profits flowing from infringement but not revenue generated by the use of the profits").

Accordingly, Bourne is awarded prejudgment interest based on the 52-week United States Treasury bill rate in effect on the date of each of the respective infringement.[2]

CONCLUSION

Bourne's motions to vacate the May 26, 1993 order, and for attorney's fees are denied. Defendants' motion for sanctions is also denied. Bourne's request for equitable relief other than the injunction is denied. Bourne's motions for costs and prejudgment interest are granted as stated above. Defendants are enjoined from using any of the musical compositions in television advertising and promotions without a license.

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[2] This rate is consistent with 28 U.S.C. § 1961(a), which applies the 52-week Treasury bill rate to awards of post-judgment interest. *See Ingersoll Milling Machine Co. v. M/V Bodena*, 829 F.2d 293, 311 (2d Cir. 1987) ("the rate of interest used in awarding prejudgment interest rests firmly with the sound discretion of the trial court"), *cert. denied*, 484 U.S. 1042, 108 S. Ct. 774 (1988).

Submit a proposed judgment, on consent as to form if possible, within twenty days.

So ordered.

Dated: June 8, 1994
New York, New York

LOUIS L. STANTON

LOUIS L. STANTON
U.S.D.J.

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

No. 91 Civ. 344 (LLS)

Dated December 1, 1992

BOURNE CO.

—v.—

THE WALT DISNEY COMPANY, BUENA VISTA HOME VIDEO, TOWER RECORDS, INC., BARNES & NOBLE BOOKSTORES, INC., RECORD EXPLOSION, INC., BLOCKBUSTER ENTERTAINMENT CORP., RKO WARNER VIDEO, INC., and DOES 1 THROUGH 100.

STANTON, *District Judge*:

Bourne Co. ("Bourne") brought this action alleging that defendants have infringed its copyrights to musical compositions from the movies "Snow White and the Seven Dwarfs" and "Pinocchio." Defendants move for summary judgment pursuant to Fed.R.Civ.P. 56.

Defendants argue that because Bourne renewed its copyrights under the name of a previously dissolved corporation, "Bourne, Inc.," rather than its true name, "Bourne Co.," the copyrights are invalid and unenforceable in this action. *See International Film Exchange v. Corinth Films,* 621 F.Supp. 631, 635 (S.D.N.Y. 1985) (Licensee could not validly renew copyright).

The Second Circuit has stated, however, that the copyright statute "grants valuable rights to persons who create subject matter which is copyrightable and that useless technicalities are not to be allowed to cut down the benefits conferred." *United States v. Backer,* 134 F.2d 533, 536 (2d. Cir. 1943). In *Backer,* the court held that because "appellant was not prejudiced," a mistake in the timing of the copyright application was not enough to invalidate the copyright. Citing *Backer,* the court in *Pantone, Inc. v. A.I. Friedman,* 294 F. Supp. 545 (S.D.N.Y. 1968), declined to invalidate a copyright even though the application was in the name of "Pantone Press, Inc." rather than its true name, "Pantone, Inc." *See also, Alart Associates, Inc. v. Aptaker,* 279 F. Supp. 268, 270 (S.D.N.Y. 1968):

> [D]efendants do not point to any prejudice suffered by them or the public as a result of plaintiff's mistake. On the contrary, the name "Alart, Inc." appears sufficiently close to plaintiff's full name to identify plaintiff as the copyright owner, so that the public would be aware of the existence of its copyright and not be misled. In the absence of prejudice, an innocent clerical error in the application and certificate of registration, unaccompanied by fraud, does not invalidate the copyright or render it incapable of supporting an infringement action.

In another decision, coincidentally involving The Walt Disney Company and musical compositions from "Snow White," the court found that the difference between "The Thornton Allen Company," the name under which the copyright was registered, and "T.W. Allen Company," the name under which the individual plaintiff had filed the requisite certificate that he was doing business, was "a slight variation and is not material." *Allen v. Walt Disney,* 41 F. Supp. 134, 135 (S.D.N.Y. 1941). *See also, Thomas Wilson & Co. v. Irving J. Dorfman Co.,* 433 F.2d 409, 412 (2d Cir. 1970) (fact that president of corporation, rather than corporation, was named as author on application did not affect validity of copyright because error was made in good faith).

The copyright renewals at issue here were filed under the name "Bourne, Inc." even though that company had been dissolved and all rights to the musical compositions had passed to Bonnie Bourne, doing business as "Bourne Co. Defendants, however, have not shown that they were prejudiced by the error, or that the public was in any way misled as to the true owner. Bonnie Bourne, in fact, was the sole owner of both Bourne entities. In the absence of prejudice or fraud this court will "preserve copyrights rather than invalidate them on the basis of minor defects in registration certificates." *Huk-a-Poo Sportswear, Inc. v. Little Lisa, LTD.*, 74 F.R.D. 621, 624 (S.D.N.Y., 1977).

Accordingly, Defendants' motion is denied.

So ordered.

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

No. 2143, Docket 92-7701

Argued Aug. 12, 1992

Decided Sept. 29, 1992

BOURNE CO.,

Plaintiff-Appellee,

—v.—

TOWER RECORDS, INC., BARNES & NOBLE BOOKSTORES INC., RECORD EXPLOSION, INC., BLOCKBUSTER ENTERTAINMENT CORP., RKO WARNER VIDEO, INC., DOES # 1-# 100,

Defendants,

THE WALT DISNEY COMPANY and
BUENA VISTA HOME VIDEO,

Defendants-Appellants.

SANFORD M. LITVACK, The Walt Disney Co. (Peter Herbert, Richard S. Mandel, Alasdair J. McMullan, Cowan, Liebowitz & Latman, New York City, of counsel), for defendants-appellants.

JAY GORDON, New York City (Janet P. Kane, Theodore C. Max, Robert N. Fass, Shelley Moroff, Phillips, Nizer, Benjamin, Krim & Ballon, of counsel), for plaintiff-appellee.

Before

WINTER, MINER and MCLAUGHLIN,
Circuit Judges.

WINTER, Circuit Judge.

Walt Disney Company ("Disney") and Buena Vista Home Video appeal from a preliminary injunction issued by Judge Stanton, barring their use of songs from the movie "Pinocchio" ("the songs") on videocassette trailer advertisements. Because the district court gave insufficient weight to Bourne Co.'s delay in seeking relief and mistakenly considered the challenged use "new", we reverse.

In 1939, Disney entered into an agreement with Bourne, in which it assigned to Bourne copyrights to the songs from the movie "Pinocchio", including the famous "When You Wish Upon A Star" ("Wish Upon A Star"). The parties disagree about the effect of this agreement. Disney claims the agreement gave Bourne only the right to collect licensing fees from third parties and to keep fifty percent of the fees received, leaving Disney free to use the songs for its own purposes. Bourne claims that Disney ceded all rights to the songs, except for the right to employ them in public performances of motion pictures.

Whatever the meaning of the contract, Disney exercised for decades its claimed rights without protest by Bourne. Beginning in 1954, Wish Upon A Star opened and closed Disney's weekly television series. Both Wish Upon A Star and the series were used to promote Disneyland. In addition, Disney's national advertising campaign featured Wish Upon A Star. Disney's uses of the songs kept pace with technological development. When home movie projectors became popular, the songs accompanied reel-to-reel movies sold solely for home use. When video-technology developed, Disney employed the new technology in distributing the movie "Pinocchio" for home viewing in at least twenty-three countries. It has also used the songs on a wide variety of video-

cassettes. In sum, the songs have been used for decades in a wide variety of media in ways that are inconsistent with Bourne's view of its agreement with Disney.

After decades of Disney's use of the songs for purposes other than the public performances of motion pictures, Bourne first objected in 1981. Disney rejected Bourne's claims. Bourne was silent until 1986 when it objected again. Disney again rejected Bourne's claims. Finally, in January 1991, Bourne commenced the instant action. Subsequently, Euro Disney S.A. ("EDSA") (a Disney subsidiary that manages Euro Disney) requested licenses from Bourne, intending to promote Euro Disney with Wish Upon A Star. One of the proposed promotions was a videocassette advertising trailer using Wish Upon A Star. Disney claims that the requests were a mistake and that it continued to negotiate for the licenses solely to avoid litigation that might interfere with the scheduled opening of Euro Disney. Eventually, EDSA withdrew its request but agreed to obtain licenses for the other proposed promotions. These events evidently prompted Bourne to seek the preliminary injunction barring the use of Wish Upon A Star and the songs on videocassette advertisements that is the subject of this appeal.

Judge Stanton granted Bourne's request, ruling that videocassette trailers were a new use of the songs to which Bourne had promptly objected. In his view, this prompt objection established a presumption of irreparable harm for the new infringement. This appeal followed.

As the district court noted:

> [A] preliminary injunction may be granted only upon a showing of "(a) irreparable harm and (b) either (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting [the preliminary] relief."

Bourne v. The Walt Disney Company, 1992 WL 170686, at *2, 1992 U.S.Dist. LEXIS 9853, at *6 (S.D.N.Y. July 1, 1992)

(quoting *Hasbro Bradley, Inc. v. Sparkle Toys, Inc.*, 780 F.2d 189, 192 (2d Cir.1985)). Bourne has failed as a matter of law to demonstrate irreparable harm. This is a case in which the actions of the parties speak louder than the after-the-fact arguments of their lawyers. The best evidence of the lack of urgency in Bourne's need for preliminary relief is its own course of conduct in failing to object for several decades to pervasive violations of what it now claims are its contractual rights. Faced with this record of inaction, we will not now presume that Disney's present actions threaten severe, much less irreparable, harm.

To be sure, irreparable harm is presumed when plaintiff establishes a *prima facie* case of copyright infringement. *See, e.g., Video Trip Corp. v. Lightning Video, Inc.*, 866 F.2d 50, 51-52 (2d Cir.1989). However, it is equally settled that a party's delay in the enforcement of copyrights rebuts that presumption. For example, in *Citibank, N.A. v. Citytrust*, 756 F.2d 273 (2d Cir.1985), we held that the presumption of irreparable harm did not survive even a ten-week delay from discovery of the claimed infringement to commencement of the lawsuit. Citibank waited "more than ten weeks after it learned directly of Citytrust's plans" to expand into Long Island before seeking an injunction. *Id.* at 276. We held that "Citibank's failure to act sooner 'undercuts the sense of urgency that ordinarily accompanies a motion for preliminary relief and suggests that there is, in fact, no irreparable injury.' " *Id.* at 277 (quoting *Le Sportsac, Inc. v. Dockside Research, Inc.*, 478 F.Supp. 602, 609 (S.D.N.Y.1979)). Bourne has delayed for decades, and any presumption of irreparable harm clearly perished long ago.

The district court granted preliminary relief on the grounds that videocassette trailers are a new use and that Bourne's prompt objection to such a new use revived the presumption of irreparable harm that normally accompanies a claim of copyright infringement. We disagree.

Citibank involved Citibank's objection to a new Citytrust branch office that would handle only commercial loans. The prior use that we held to be a rebuttal of the presumption of

irreparable harm was neither a branch office nor specifically related to commercial loans. We thus stated:

> Any sense of urgency is further undercut by additional facts. Long before this dispute over its Long Island branch had arisen, Citytrust had advertised its services in the New York media, apparently, as Citibank asserts in its appellate brief, as early as 1980. Citytrust placed ads in the *New York Times* in October 1982 advertising its "insured money market plus account." Similarly, Citytrust apparently advertised on New York City radio stations in either 1982 or 1983.

Id. Acquiescence to radio and newspaper advertisements rebutted any presumption that the opening of a branch office caused irreparable harm. *Citibank* thus held that prior acquiescence in the use of an allegedly infringing name to advertise banking services generally belies a claim of irreparable harm arising from the use of that name to solicit the specific business of commercial loans. Properly understood, *Citibank* holds only that acquiescence in an infringement rebuts the presumption of irreparable harm where the allegedly "new" use does not inflict harm qualitatively different from the harm flowing from the prior infringement.

We also agree with, and adopt, the holding of *Gear, Inc. v. L.A. Gear California, Inc.*, 637 F.Supp. 1323 (S.D.N.Y.1986). The plaintiff in *Gear* was on notice that the defendants were aggressively marketing and developing a range of products that could, and at times did, infringe on plaintiff's trademarks. When defendants began a new infringing use, plaintiff sought a preliminary injunction. Judge Haight denied the request, ruling that:

> In these circumstances, defendants' continued expansion into new activities cannot be considered a qualitative change. Plaintiff was on notice a year before it filed suit and more than a year before seeking preliminary relief that defendants intended to continue to use "L.A. Gear" on various product lines, including one directly competitive with a "Gear" line; that defendants were seeking

> to register the "L.A. Gear" mark; and that defendants denied plaintiff's claim of infringement. It is too late in the day for plaintiff now to claim irreparable injury.

Id. at 1332-33.

The facts of *Gear* are similar to, but less egregious than, the instant case. Disney has used the songs, including Wish Upon A Star, to advertise or accompany its products for decades. The harm caused by this use is qualitatively similar—often identical—to the harm alleged in Bourne's complaint. Disney's conduct over the decades clearly signaled its intentions to use the songs for a multitude of purposes and in new media forms as technology developed. Whatever presumption Bourne might have enjoyed over a generation ago is long gone.

We need not address the precise circumstances in which a truly new use of a name or song will revive the presumption of irreparable harm. We do note, however, that the perceived harm from the new use must be so qualitatively different from the harm flowing from the prior uncontested use that the injured party could not reasonably foresee the new harm. Where the quality of the new harm is not foreseeable, the injured party's earlier forebearance does not support an inference that it perceived no injury worthy of legal action. However, where the prior harm reasonably alerts the injured party to the infringer's future intentions, the injured party must act or cannot expect to obtain preliminary relief when it later brings suit. The use of Wish Upon A Star to advertise Euro Disney on videocassettes neither caused a qualitatively different harm nor was unforeseeable. Bourne has thus failed to establish irreparable injury and is not entitled to an injunction.

We therefore reverse.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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91 Civ. 0344 (LLS)

BOURNE CO.,

Plaintiff,

—against—

THE WALT DISNEY COMPANY, et al.,

Defendants.

OPINION AND ORDER

Plaintiff Bourne Co. ("Bourne") moves for a preliminary injunction restraining defendants (collectively "Disney") from producing, manufacturing, distributing, or promoting any videocassettes which use the musical composition "Little Wooden Head" in a sing-along format, and from performing or using television advertisements incorporating the musical compositions "When You Wish Upon A Star" (Wish) or "Heigh Ho."

BACKGROUND

In an Opinion and Order dated July 2, 1992 ("*Bourne I*"), (familiarity with which is assumed) this court granted Bourne's motion for a preliminary injunction restraining Disney from producing, manufacturing, distributing, or promoting any videocassettes, with certain exceptions as stated in *Bourne I*, which use Wish or any other song subject to the Pinocchio agreement in advertising or promotional trailers.

1. *The Pinocchio and Snow White Agreements*

The musical compositions Wish and Little Wooden Head were both originally written for Disney for use in the animated motion picture "Pinocchio." Thereafter, pursuant to a written agreement executed in 1939, Disney assigned the copyrights to all the Pinocchio songs to Irving Berlin, Inc. ("Berlin"), Bourne's predecessor in interest, in return for an agreement that Berlin would pay Disney a fee each time it published a Pinocchio song, and that it would share with Disney any licensing revenues from those songs. Berlin also gave to Disney a limited license-back, as follows:

> [W]e hereby grant to you . . . the non-exclusive right to mechanically and/or electrically record the said musical compositions and/or lyrics, if any, in synchronism with any and all of the motion pictures which may be made by you and the right to export such recordings to all of the countries of the world, and the right to give public performances of such recordings in connection with the exhibition of the motion pictures with which said recordings were synchronized. . . . . Upon your request we will deliver to you a separate synchronization license duly executed by us in terms as broad as stated in this paragraph.

(Complaint, Exh. D, ¶ 3).

The musical composition Heigh Ho was originally written for Disney for use in the animated motion picture, "Snow White." Thereafter, pursuant to a written agreement executed in 1937, Disney assigned the copyrights to all the Snow White songs to Berlin, in return for an agreement that Berlin would pay Disney a fee each time it published a Snow White song, and that it would share with Disney any licensing revenues from those songs. The Snow White agreement did not contain a license-back to Disney (Complaint, Exh. A). On July 26, 1974, Mr. Walter S. Beck of the law firm Phillips, Nizer, Benjamin, Krim & Ballon, counsel for Bourne, wrote a letter (the "Beck letter") to Mr. Peter F. Nolan, Disney's in-house counsel, which stated:

> There can be no question but that the original 1933 agreement conveying the compositions and copyrights to Bourne, reserved in you the right to employ—without any royalty or other obligation to Bourne—the "Snow White" music for any of your television or motion picture presentations of your dramatic musicals.

6/30/92 Nolan Dec., Exh. L.

Since 1932, Disney has made extensive use of many of the Pinocchio and Snow White songs in all visual media, without licenses. Disney has, on other occasions, requested and obtained a synchronization license to use those songs for visual productions.

2. *Little Wooden Head and Sing-Along Videocassettes*

Disney used Little Wooden Head without a license in a 1961 theatrical trailer advertising the theatrical release of "Pinocchio." Disney has also used Little Wooden Head sporadically over the years in various Disney television productions. Little Wooden Head appears on the videocassette version of Pinocchio which Disney has been producing and selling since 1985 (7/8/92 McMullan Dec. ¶ 9; 6/29/92 Richman Dec. ¶ 7).

In or about 1987, Disney began releasing a series of sing-along videocassettes. Each sing-along videocassette shows video clips synchronized with songs while the lyrics to the songs appear at the bottom of the screen with a "bouncing ball," sometimes in the shape of Mickey Mouse's head, so that viewers can sing to the music. Volumes One through Four and Volume Seven in the series each used a Pinocchio song. Volume One used a version of the Pinocchio song "Hi Diddle Dee Dee" which includes additional lyrics of that song which are subject to Bourne's copyright and which were apparently edited out of the original Pinocchio "Hi Diddle Dee Dee" sequence. There are also variations between the sing-along versions of "Give A Little Whistle" and Wish and the original Pinocchio versions of those songs (7/8/92 Richman Dec. ¶ 3).

Volume Ten in the sing-along series, entitled "Be Our Guest" was released on or about June 19, 1992. It uses, without a license, a version of Little Wooden Head (and printed lyrics of that version) which includes additional lyrics of that song which are covered by Bourne's copyright, which were apparently edited out of the original Pinocchio Little Wooden Head sequence, and which apparently have never before been utilized by Disney, either with or without a license (the "additional lyrics").

3. *Wish and Heigh Ho*

Disney has made extensive use of Wish on television without a license. It used Wish in the opening and closing of its weekly, prime-time television series, which aired under various names from 1954 until 1983. Since 1983, Disney has also used Wish for various programs on the Disney Channel cable service.

Disney has used Wish in television advertising promoting its videocassettes, its theme parks, and the release of the Pinocchio videocassette. It used Wish in its "Disappearing Classics" advertisements promoting various Disney videocassettes including "Bambi," "The Little Mermaid," and "Cinderella." Disney's television campaign entitled "What's Next," which uses Wish without a license, has run from 1987 to the present.

Disney has used Heigh Ho without a license in approximately fifteen different television advertisements for the 1987 re-release of "Snow White" (Mantle Dec. ¶ 3). In addition, Disney has used Heigh Ho without a license in various theatrical trailers and television programs over the past forty years, and in Volume One of its sing-along videocassette series (*id.*; 6/30/92 Nolan Dec. ¶ 5; 6/30/92 Richman Dec. ¶ 3).[1]

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[1] Bourne seeks an order pursuant to Fed. R. Civ. P. 37, precluding defendants from relying on the Mantle Declaration and on Exhibit I in support of that declaration, on the grounds that Ms. Mantle ought to have been identified as a witness and the information in Exhibit I ought to have been produced to Bourne before the discovery cut-off date of June 12, 1992. (See 7/17/92 Fass Aff. ¶¶ 23-24).

In or about the middle of June, 1992, Disney released the two new television advertisements at issue here. The first one uses Heigh Ho to promote Volume Ten of Disney's sing-along videocassette series. The second uses Wish to promote the theatrical re-release of "Pinocchio."

On June 26, 1992, Bourne brought the instant motion for a preliminary injunction enjoining the sing-along version of Little Wooden Head which appears on "Be Our Guest" and the two television commercials.

DISCUSSION

"[A] preliminary injunction may be granted only upon a showing of '(a) irreparable harm and (b) either (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting the preliminary relief.' " *Hasbro Bradley, Inc. v. Sparkle Toys, Inc.*, 780 F.2d 189, 192 (2d Cir. 1985), quoting *Jackson Dairy, Inc. v. H.P. Hood & Sons, Inc.*, 596 F.2d 70, 72 (2d Cir. 1979).

To show likelihood of success on the merits, Bourne must establish *prima facie* copyright infringement by showing that

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Disney has been warned by the court that evidence not produced may be subject to an order of preclusion. I appreciate, however, the difficulties that Bourne's requests for discovery present to Disney and Disney's other recent obligations in this action.

Nevertheless, the Fass affidavit makes a strong, detailed showing that Disney's failure to identify Ms. Mantle or to produce the advertising information on Exhibit I before June 12, 1992 is punishable. Disney claims, without any specifics, that it could present facts and legal arguments showing that no sanctions should be imposed (*See* 7/21/92 Herbert Letter; Def. 7/9/92 Mem. of Law at 3 n.1).

For the purpose of this equitable motion, I am taking account of the above evidence. Questions such as whether Bourne has suffered prejudice, whether Disney makes the showing it claims it can, whether the evidence should be excluded at trial, or whether a lesser sanction is appropriate, all remain open. *See Update Art, Inc. v. Modiin Publishing, Ltd.*, 843 F.3d 67, 70-72 (2d Cir. 1988) (explaining circumstances where order of preclusion was within discretion of magistrate).

it owns valid copyrights, and that Disney has engaged in unauthorized copying. *See Hasbro Bradley*, 780 F.2d at 192.

Ordinarily, when a copyright plaintiff makes a *prima facie* showing of infringement, the evidence of irreparable harm need not be very detailed, because irreparable harm is presumed. *See Video Trip Corp. v. Lightning Video, Inc.*, 866 F.2d 50, 51-52 (2d Cir. 1989); *Wainwright Secs., Inc. v. Wall Street Transcript Corp.*, 558 F.2d 91, 94 (2d Cir. 1977), *cert. denied*, 434 U.S. 1014 (1978); *Dynamic Solutions, Inc. v. Planning & Control, Inc.*, 646 F. Supp. 1329, 1337 (S.D.N.Y. 1986). *Cf. Church of Scientology Int'l v. Elmira Mission*, 794 F.2d 38, 43 (2d Cir. 1986) (in trademark case, "a licensor's plea for injunctive relief is stronger than the ordinary trademark plaintiff's and—because of the necessity of licensor control—irreparable harm *always* flows from unlawful use and confusion.") (emphasis in original).

Bourne asserts that Disney has usurped Bourne's ability to control the extent and scope of the use of its copyrighted material; that if Disney is not enjoined, other users might also be encouraged to infringe Bourne's copyrights; and that continued erosion of Bourne's position will impair its ability to negotiate with other authors and composers when acquiring musical compositions and catalogs (4/15/92 Bourne Aff. ¶¶ 4, 10). As a licensor, Bourne's continued and growing inability to control the use of its copyrighted songs for commercial purposes is sufficient to establish irreparable harm. Furthermore, because copyright credit on the "Be Our Guest" videocassette is given to Disney, rather than to Bourne, the public may be misled as to who holds the copyright to Little Wooden Head. (*See* 7/18/92 Bourne Aff. ¶ 7).

Disney argues that Bourne's delay in seeking legal relief rebuts the copyright law presumption of irreparable harm, and requires the contrary presumption that Bourne is not suffering irreparable harm. *See, e.g., Citibank, N.A. v. Citytrust*, 756 F.2d 273 (2d Cir. 1985) (delay in seeking legal relief for trademark[2] infringement rebuts the presumption that the

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[2] Bourne argues that *Citibank*, a trademark case, does not apply to copyright cases. That position is rejected for the reasons stated in *Bourne I*.

infringement is causing irreparable harm); *Majorica, S.A. v. R. H. Macy & Co.*, 762 F.2d 7, 8 (2d Cir. 1985) (preliminary injunction in trademark case cannot issue because of delay in seeking injunction); *Business Trends Analysts v. Freedonia Group, Inc.*, 650 F. Supp. 1452, 1459 (S.D.N.Y. 1987).

A. *LITTLE WOODEN HEAD*

1. *Irreparable Harm*

Disney contends that Bourne's failure to seek legal relief with respect to prior uses of Little Wooden Head and prior sing-along videocassettes using other Pinocchio songs with printed lyrics and additional lyrics precludes Bourne from obtaining a preliminary injunction to halt Disney's current infringement of Little Wooden Head. Disney relies on *Citibank*, 756 F.2d at 277, and on *Gear, Inc. v. L.A. Gear California, Inc.*, 637 F. Supp. 1323, 1332-33 (S.D.N.Y. 1986):

> In these circumstances, defendants' continued expansion into new activities cannot be considered a qualitative change. Plaintiff was on notice a year before it filed suit and more than a year before seeking preliminary relief that defendants intended to continue to use "L.A. Gear" on various product lines, including one directly competitive with a "Gear" line; that defendants were seeking to register the "L.A. Gear" mark; and that defendants denied plaintiff's claim of infringement. It is too late in the day for plaintiff to claim irreparable injury.

Here, for the first time, Disney printed the lyrics of Little Wooden Head and used the additional lyrics.[3] Bourne moved without delay to halt this use. For that and the reasons stated in *Bourne I*, *Citibank* is not applicable to this case.

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[3] Bourne also argues that the prior Disney videocassette uses of Little Wooden Head were in dramatic rather than in sing-along formats. That point need not be reached.

Gear, Inc. is likewise distinguishable. In *Gear, Inc.*, defendants infringed the same trademark on various product lines, The court held that there was no qualitative difference between infringing a trademark on one competing product line and infringing the same trademark on a different competing product line. Here, Disney's new use of Little Wooden Head is qualitatively different from Disney's prior uses of that song, which did not include the printed or additional lyrics. The right to print the lyrics of Little Wooden Head is qualitatively different from the right to synchronize that song with a visual image.

Disney asserts that the copyrights to all the Pinocchio songs were conveyed to Bourne under one contract, and therefore Disney's rights with respect to Little Wooden Head are presumably identical to Disney's rights with respect to any other Pinocchio song. Disney argues that therefore, "There is no logical or legal basis for distinguishing among the 'Pinocchio' songs in assessing the absence of irreparable harm arising out of prior uses." (Def. 7/9/92 Mem. of Law at 6).

However, for the purpose of determining whether Bourne is suffering irreparable harm, each copyrighted song is to be considered individually. The harm to a licensor caused by the infringement of one of its copyrights is not the same harm caused by the infringement of a different copyright, even if the licensor obtained the copyrights under one contract. *Cf. Stone v. Williams*, No. 91-7706, slip op. 5489, 5499 (2d Cir. July 13, 1992) ("Each act of infringement is a distinct harm giving rise to an independent claim for relief."), citing *Mount v. Book-of-the-Month Club, Inc.*, 555 F.2d 1108 (2d Cir. 1977).

Under the copyright law, the presumption that Bourne is suffering irreparable harm because of Disney's new use of Little Wooden Head (here buttressed by Bourne's specific showing of irreparable harm) is not rebutted by the fact that Bourne did not in the past move to stop Disney's similar uses of other Pinocchio songs.

2. *The Merits*

It appears to be common ground that Bourne holds a valid copyright to Little Wooden Head, and that Disney has copied it. The parties dispute whether the copying is authorized under the Pinocchio agreement. In *Bourne I*, this court concluded that "Bourne has the better of the argument that its license-back did not permit videocassette uses."

Disney raises the defenses of laches and equitable estoppel. In *Bourne I*, this court concluded that with respect to videocassette uses, those defenses "do no more than raise sufficiently serious questions going to the merits to make them a fair ground for litigation."

It should be noted that Bourne's delay with respect to television uses is not imputed to the dispute regarding videocassette uses, because Bourne's silent toleration of Disney's television uses may have been due to Bourne's recognition that its rights in that regard are questionable (*See* Section B(2) infra). Only the period of Bourne's silent toleration of Disney's unauthorized videocassette uses is relevant to the issue whether Disney can successfully invoke its equitable defenses to protect videocassette uses.

Furthermore, even if, through laches, Disney had acquired the right to use the Pinocchio songs on videocassettes, that would not give it the right to print the lyrics of those songs, a right which appears to rest exclusively with Bourne. Bourne has therefore demonstrated likelihood of success on the merits of its claim regarding Little Wooden Head.

3. *The Balance of Hardships*

Even if Bourne shows only sufficiently serious questions going to the merits to make them a fair ground for litigation, a preliminary injunction should issue because the balance of hardships tips decidedly in Bourne's favor.

Disney argues that the balance of hardships does not tip decidedly in Bourne's favor, because of the severe harm a preliminary injunction would cause to Disney. Disney claims that it "will be forced to incur over $1 million in damages and in the expenses necessary to delete the song at issue from the

videos, change the packaging and reship the videos." (Def. 7/9/92 Mem. of Law at 9).

As explained in *Bourne I*, the balance of hardships tips decidedly in favor of Bourne, the copyright holder, in its quest to maintain the status quo and to prevent Disney from expanding its infringing activity to printing the lyrics and using the additional lyrics of Bourne music which Disney has not used in this way before.

B. *WISH AND HEIGH HO*

1. *Irreparable Harm*

It is undisputed that Disney has used both Wish and Heigh Ho in television productions and television advertisements years before June, 1992, and that Bourne took no steps to halt those uses. Bourne urges that Disney has never before used the particular advertisements at issue, that Disney has never before used Heigh Ho to advertise a sing-along videocassette; that Disney has only once used Wish to advertise "Pinocchio," and that the new commercials aim at a new generation of children who have not seen the prior infringing commercials (*See* Pl. Reply Mem. of Law at 13).

However, there is no qualitative difference between the type of infringement Bourne has tolerated in the past and the type of infringement at issue here. Under *Citibank* and its progeny, Bourne's failure to seek legal relief with respect to Disney's prior uses of the same songs, Wish and Heigh Ho, in television advertisements creates the presumption that the harm from the new television commercials will not be irreparable. Therefore, no preliminary injunction will issue with respect to those uses of the those songs. *See College Entrance Examination Board v. Cuomo*, 788 F. Supp. 134, 144-45 (N.D.N.Y. 1992); *Grondin v. Rossington*, 690 F. Supp. 200, 209 (S.D.N.Y. 1988); *Gear, Inc. v. L.A. Gear California, Inc.*, 637 F. Supp. 1323, 1332-33 (S.D.N.Y. 1986).

2. *The Merits*

In *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150, 152-55 (2d Cir.), *cert. denied*, 393 U.S 826 (1968), the Court of Appeals for the Second Circuit held that under New York law a contract executed in 1930, which gave the licensee the right "to copyright, vend, license and exhibit such motion picture photoplays throughout the world," included the right to exhibit the copyrighted motion picture by television:

> [T]he licensee may properly pursue any uses which may reasonably be said to fall within the medium as described in the license . . . . If the words are broad enough to cover the new use, it seems fairer that the burden of framing and negotiating an exception should fall on the grantor . . . .

Id. at 155 (citations omitted).

Under New York law, where the ambiguous words of a license can be construed to cover a disputed use, the controlling factor appears to be whether that disputed use was known and could have been contemplated when the parties signed their agreement: if it was, the use is permitted. If it was not, the use is prohibited. *See id.* at 154-55; *Kirke La Shelle Co. v. Paul Armstrong Co.*, 263 N.Y. 79, 82-86 (1933). The *Bartsch* court found that television technology was available in 1930. 391 F.2d at 154. Assuming a similar finding here (although no evidence on the point has yet been offered), it appears that Disney has the better of the argument that the Pinocchio license-back does permit television uses. Further, in the Beck letter Bourne apparently conceded that Disney has the right to use the Snow White songs without a license in television productions.[4]

Disney raises the defenses of laches and equitable estoppel. It claims that it is prejudiced by Bourne's delay in asserting its rights which makes it harder for Disney to support its interpretation of the contract since all persons known to be involved in the negotiation of the contract, and many of those

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[4] As stated in *Bourne I*, whether advertisements are permitted is unresolved. Nor did the Beck letter concede advertising rights to Disney.

involved in its interpretation over the years, have died. *Bourne I* held that if the contract was interpreted as a matter of law in Bourne's favor with respect to videocassette uses, the unavailability of witnesses might be immaterial. However, it seems unlikely that the contract will be interpreted as a matter of law in Bourne's favor with respect to television uses. If the Pinocchio license-back is found to be ambiguous about whether television advertisements are permitted, the unavailability of witnesses might be so prejudicial as to invoke the bar of laches. Similarly, the 1974 Beck letter may equitably estop Bourne from attacking television uses of the Snow White songs.

Thus it cannot be regarded as likely that Bourne will succeed on the merits of its current claims regarding Wish and Heigh Ho.

CONCLUSION

So much of Bourne's motion as seeks a preliminary injunction enjoining defendants from using Wish and Heigh Ho in television advertisements is denied. The motion is granted to the extent that defendants are enjoined from using Little Wooden Head in a sing-along format on videocassettes with printed lyrics, or with the additional lyrics.

Dated: New York, New York
August 6, 1992

LOUIS L. STANTON

LOUIS L. STANTON
U.S.D.J.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

91 Civ. 0344 (LLS)

BOURNE CO.,

Plaintiff,

—against—

THE WALT DISNEY COMPANY, et al.,

Defendants.

OPINION AND ORDER

Plaintiff Bourne Co. ("Bourne") moves for a preliminary injunction restraining defendants The Walt Disney Company and Buena Vista Home Video (collectively "Disney") from producing, manufacturing, distributing, or promoting any videocassettes which use the musical composition "When You Wish Upon A Star", ("The Song") in advertising or promotional trailers.

BACKGROUND

In or about 1939, Disney, as an employer for hire, caused to be written and composed twelve original musical compositions ("the Pinocchio songs" or "the songs"), including The Song, for use in its animated motion picture, Pinocchio.

Disney thereafter entered into a written agreement with Irving Berlin, Inc. ("Berlin"), a predecessor-in-interest of Bourne, under which Disney assigned to Berlin all rights, title, and interest, including copyright and renewal rights, in

the Pinocchio songs. In return, Berlin agreed to make certain payments to Disney each time Berlin published any of the songs and to share with Disney any licensing fees it received from third party licensees of the songs. Berlin also gave to Disney a license-back, as follows:

> [We] hereby grant to you . . . the non-exclusive right to mechanically and/or electrically record the aid musical compositions and/or lyrics, if any, in synchronism with any and all of the motion pictures which may be made by you and the right to export such recordings to all of the countries of the world, and the right to give public performances of such recordings in connection with the exhibition of the motion pictures with which said recordings were synchronized. . . . . Upon your request we will deliver to you a separate synchronization license duly executed by us in terms as broad as stated in this paragraph.

(Complaint, Exh. D, ¶ 3). Disney contends that this agreement "permits Disney the unfettered right to freely synchronize the Pinocchio Compositions with any of its own visual productions." (4/23/92 Nolan Dec., ¶ 10). Bourne contends that this agreement permits Disney to use the songs in its feature films and to show those films publicly anywhere in the world.[1]

Since 1932, Disney has made extensive use of the Pinocchio songs in all visual media, without a license. Disney has, on other occasions, requested and obtained a synchronization license to use the songs for visual productions. On April 8, 1981 Disney requested a fee quotation for a synchronization license to use The Song "as a background instrumental in a movie trailer for our summer release of 'THE FOX AND THE HOUND.' " (5/1/92 Bourne Aff, Exh. 2).[2]

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[1] Disney apparently concedes that it must pay royalties for some uses, such as radio advertisements, which do not involve synchronizing the songs with a visual recorded image (See 5/6/92 Nolan Dec. ¶ 3)

[2] There is no evidence that this license was ever granted, or that Disney ultimately used the music without a license.

Since 1932, Disney has sold, without a license, reel-to-reel movies for home use, on which the Pinocchio songs appeared. In 1962, Disney released a home movie, "Disney After Dark" which used The Song to promote its California theme-park.

Since 1980, Disney has been releasing, without a license, videocassettes that use the Pinocchio songs. In 1985 it released the movie Pinocchio on videocassette, along with all of its songs. In 1980, Disney released the videocassette "Disneyland Fun," which uses The Song to promote its theme-park. Disney has also used The Song on videocassettes such as "Disney's Greatest Lullabies Vol. 1," and "Simply Mad About The Mouse."

Disney has also used The Song on television without a license. It used The Song in the opening and closing of its weekly, prime-time television series, which aired under various names from 1954 until 1983. Since 1983, Disney has also used The Song for various programs on the Disney Channel cable service.

Disney has used The Song in television advertising, promoting its videocassettes and its parks. Its television campaign entitled "What's Next, which uses The Song without a license, has run from 1987 to the present.

However, until immediately before Bourne moved for a preliminary injunction, Disney has never used The Song as a trailer advertisement appended to a videocassette home-release, feature length movie.

In January, 1991 Bourne brought this suit to recover damages for Disney's allegedly infringing uses of the Pinocchio songs on television, videocassette, and for advertising and promotion, arguing that those uses are not covered by the license-back provision of the Pinocchio agreement.

On October 15, 1992 Euro Disney, S.C.A.[3] began negotiating with Bourne for licenses to use The Song in various media, including a license to use The Song in an advertising

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[3] For the purposes of this motion, it is not necessary to determine whether The Song is being used by a third-party, Euro Disney S.C.A., or by a wholly-owned subsidiary, Euro Disney S.A., because Bourne's motion for preliminary injunction includes Disney and its wholly owned entities.

trailer promoting the park, appended to the home-video release of the Disney movie "The Rescuers Down Under" (4/9/92 Bourne Aff., Exhs 1-10). Although the parties successfully negotiated licenses for all of Euro-Disney's other requests, they did not come to terms on a videocassette trailer license (*Id.*, Exhs 10-12). Ultimately, Disney released the videocassette trailer without a license. Bourne now moves for a preliminary injunction enjoining Disney from using the Pinocchio songs for videocassette trailer advertisements and for a recall of all released videocassettes which contain any advertisement or promotion using any of the Pinocchio songs.

DISCUSSION

"[A] preliminary injunction may be granted only upon a showing of '(a) irreparable harm and (b) either (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting relief.' " *Hasbro Bradley, Inc. v. Sparkle Toys, Inc.*, 780 F.2d 189, 192 (2d Cir. 1985) (quoting *Jackson Dairy, Inc. v. H.P. Hood & Sons, Inc.*, 596 F.2d 70, 72 (2d Cir. 1979)).

A. *Irreparable Harm*

Ordinarily, in a copyright case, if plaintiff demonstrates a *prima facie* case of copyright infringement, the showing of irreparable harm need not be very detailed, because irreparable harm is presumed. *See Video Trip Corp., v. Lightning Video, Inc.*, 866 F.2d 50, 51-52 (2d Cir. 1989); *Wainwright Secs., Inc. v. Wall Street Transcript Corp.*, 558 F.2d 91, 94 (2d Cir. 1977), *cert. denied*, 434 U.S. 1014 (1978); *Dynamic Solutions, Inc. v. Planning Control, Inc.*, 646 F. Supp. 1329, 1337 (S.D.N.Y. 1986).

Bourne asserts that Disney has usurped Bourne's ability to control the extent and scope of the use of its copyrighted material, and that its potential damages are not quantifiable, especially because Disney is using The Song in a new adver-

tising medium whose unique potential cannot be predicted (5/1/92 Bourne Aff. ¶ 15). Furthermore, Disney first negotiated for this license and then, when it deemed Bourne's asking price too high, decided to proceed without a license, in brazen denigration of Bourne's rights. Bourne argues that if Disney is not enjoined, other users might also be encouraged to infringe Bourne's copyrights (4/15/92 Bourne Aff. ¶ 10). Finally, continued erosion of Bourne's position will impair its ability to negotiate with other authors and composers when acquiring musical compositions and catalogs (*Id.* ¶ 4).

Ordinarily, in a copyright case, this showing would suffice to establish irreparable harm. However, here Disney argues that Bourne's delay in seeking legal relief rebuts the copyright law presumption of irreparable harm, and requires the contrary presumption that Bourne is not suffering irreparable harm. It further contends that before the relationship between Bourne and Euro-Disney became adversarial, Bourne was willing to license the videocassette trailers for $.08 a unit, and therefore money damages would adequately compensate Bourne, should Bourne ultimately prevail.

1. *Delay in Seeking Relief*

It is undisputed that prior to April, 1992, Disney had not produced videocassette trailer advertisements using the Pinocchio songs, and that immediately upon learning that Disney intended to produce the advertising trailer, Bourne took appropriate legal steps to protect its rights. However, for many years Disney has made continuous, extensive, allegedly unauthorized, use of the songs in other visual media, including television movies, television advertising, videocassette feature films, and videocassette promotional films.

Disney relies on *Citibank, N.A. v. Citytrust*, 756 F.2d 273 (2d Cir. 1985) which held that delay in seeking legal relief for trademark[4] infringement rebuts the presumption that the

[4] Bourne argues that *Citibank*, a trademark case, does not apply to copyright cases. However, courts in this circuit have repeatedly applied *Citibank* to copyright cases, and held that delay in seeking legal relief for copyright infringement is a sufficient reason to deny a preliminary injunction *See, e.g., Essex Music, Inc. v. ABKCO Music & Record, Inc.*,

infringement is causing irreparable harm. *See also, e.g., Majorica, S.A. v. R.H. Macy & Co.*, 762 F.2d 7, 8 (2d Cir. 1985) (preliminary injunction in trademark case cannot issue because of delay in seeking injunction); *Business Trends Analysts v. Freedonia Group, Inc.*, 650 F. Supp. 1452, 1459 (S.D.N.Y. 1987).

Citibank and the cases Disney cites differ from this case in a critical respect: each of those trademark or copyright owners delayed seeking legal relief to halt the same type of infringement or unauthorized use they later moved to enjoin. That is not true here. Bourne applied for a preliminary injunction immediately after Disney began using the song in videocassette trailers.

Disney contends that Bourne's failure to seek legal relief with respect to Disney's allegedly unauthorized prior uses of The Song precludes it from obtaining a preliminary injunction to halt Disney's expansion into this new form of infringement. Disney relies on *Citibank*:

> Any sense of urgency is further undercut by additional facts. Long before this dispute over its Long Island branch had arisen, Citytrust had advertised its services in the New York media, apparently, as Citibank asserts in its appellate brief, as early as 1980. Citytrust placed ads in the *New York Times* in October 1982 advertising its "insured money market plus account". Similarly, Citytrust apparently advertised on New York City radio stations in either 1982 or 1983. Surely, if the opening of an office in Long Island with only three employees, whose primary activity was to solicit commercial loans, would cause irreparable harm to Citibank through dilution of its trademark, advertising in the New York Times and other media under the Citytrust logo should have

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743 F. Supp. 237, 244 (S.D.N.Y. 1990) (citing *Citibank*); *Cuddle Wit, Inc. v. Chan*, 14 U.S.P.Q.2d 1572, 1573 (S.D.N.Y. 1989) (citing *Citibank*); *Russell William, Ltd. v. ABC Display and Supply, Inc.*, 11 U.S.P.Q.2d 1812, 1813 (E.D.N.Y. 1989) (citing *Citibank*). *See also, Horgan v. MacMillan, Inc.*, 789 F.2d 157, 164 (2d Cir. 1986) (analyzing copyright case under *Citibank* and assuming that *Citibank* applied).

> caused an even greater fear of irreparable harm by the plaintiffs.

756 F.2d at 277.

However, in *Citibank*, plaintiff Citibank waited ten weeks after it learned that defendant Citytrust had opened a New York branch before seeking a preliminary injunction. The Second Circuit held that the ten week delay with respect to the New York branch rebutted the presumption of irreparable harm from Citytrust's alleged trademark infringement in opening that branch. The Second Circuit did not hold that the "additional facts" which undercut any sense of urgency (see first line of quotation above) i.e. failures to object to other, different types of infringement, were sufficient standing alone to rebut the presumption of irreparable harm. The "additional facts" merely supported the conclusion reached on the basis of the ten-week delay in attacking the branch opening. Here, however, there was no delay whatsoever with respect to the specific use at issue. Bourne's tolerance of other types of infringement does not rebut the presumption that Disney's expansion into a new area of infringement is causing Bourne irreparable harm.[5]

Nor can Disney effectively argue that the home video trailer is not a new area of infringement. Despite its carefully guarded language, Disney's February 24, 1992 letter (4/9/92 Bourne Aff., Exh. 8) offered to pay $25,000 for the license to make the promotional "trailer to one home video release," based upon market information from Disney's advertising and media buying agencies. Obviously the $25,000 was to be paid for a particular license for a particular use.

Furthermore, Bourne's argument of irreparable harm is strengthened by Disney's conduct. Disney first requested a

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[5] *Gear, Inc. v. L.A. Gear California, Inc.*, 637 F. Supp. 1323, 1332-33 (S.D.N.Y. 1986) is also distinguishable. In *Gear*, the court found that there was no qualitative difference between defendant's old infringing uses of plaintiff's trademark and defendant's new uses, and therefore plaintiff's failure to object to the old uses rebutted the presumption that that the new uses were causing it irreparable harm. Here Disney's new use is qualitatively different; it is expanding its alleged infringement into a new area and a new market which neither party has yet fully exploited or explored.

license from Bourne, then abandoned the negotiations and proceeded with the videocassette trailers without a license. Bourne's failure or inability to prevent Disney's new use in such circumstances would weaken its reputation in the industry more than its failure to prevent Disney's prior infringing uses, which did not involve Disney's open disregard of its own prior request for a license (*See* Pl. Supplemental Mem. of Law at 4-5).

2. *Sufficiency of Money Damages*

Disney argues that the presumption of irreparable injury is rebutted by Bourne's offer to license The Song for videocassette trailer advertising for $.08 a unit, which shows that if Bourne ultimately prevails, it could be fully compensated by quantifiable money damages.

Bourne contends that it could not be adequately compensated by money damages because the license it contemplated granting to Disney for $.08 a unit would not have permitted Disney to distribute copies of the videocassettes to establishments which rent them to third parties, and these uncontrolled third-party rentals will cause it irreparable harm. This assertion leads only to speculation regarding the possible course of the abandoned negotiations and is unsupported by the existing correspondence between the parties.

Bourne further argues that its damages are not quantifiable because (1) the parties did not come to a definite agreement on the licensing fee; (2) it was deprived of economic leverage in the negotiations; (3) it did not include the risk of bad faith dealing and the cost of litigation in its proposed fee; (4) its reputation and negotiating position in the industry will be harmed by the unlicensed use, and Disney and others will be encouraged to commit further infringements; and (5) it only offered to license one trailer, advertising one product, on one videocassette movie, to be shown in foreign markets, whereas Disney now claims the right to use multiple infringing trailers, advertising any product, on any number of videocassettes, on any movie, in any market, and Bourne would not grant such a license under any circumstances. (*See* 4/9/92 Bourne Aff. Exh. 7; 4/15/92 Bourne Aff. ¶ 8).

The first three of those contentions are insufficient to show irreparable harm or that damages would be unquantifiable. They merely tend to show that if Bourne ultimately prevails, a reasonable royalty might be more than $.08 a unit *Cf. L.G.B. Inc. v. Gitano Group, Inc.*, 769 F. Supp. 1236, 1241 (S.D.N.Y. 1991) (solvent defendant's failure to pay licensing fee is not irreparable harm); *USA Network v. Jones Intercable, Inc.*, 704 F. Supp. 488, 493 (S.D.N.Y. 1989) (in breach of contract case, "necessity in many cases of making an informed, perhaps rough, approximation of damages does not render the legal remedy inadequate") (citations omitted).

Bourne's contentions about the damage to its reputation and about the scope of the proposed license are more persuasive. Bourne asserts that it carefully considers each proposed use before granting a license, and that it generally refuses to give blanket licenses (4/15/92 Bourne Aff. ¶¶ 2-4; 5/1/92 Bourne Aff. ¶¶ 2-3, 7). Under the circumstances, Bourne would be irreparably harmed if Disney is allowed to destroy Bourne's economic leverage as the sole licensor, and grant itself a blanket license based on a royalty offered in negotiations, which Disney itself broke off, over a limited license. Should Bourne ultimately prevail in this litigation, the present value of its lost economic leverage will be difficult, if not impossible, to appraise later.

On the present submissions, Bourne does not show irreparable harm with respect to the specific use of The Song in the trailer for home video release of "Rescuers Down Under," because its offer to grant that license for $.08 a unit provides an adequate basis for the calculation of money damages as compensation for that use. For the reasons set forth above, however, it does show irreparable harm with respect to any further use by Disney of videocassette trailer advertisements which use the Pinocchio songs.

B. *The Merits*

1. *The License-Back Provision of the 1939 Agreement*

To show likelihood of success on the merits, Bourne must establish a *prima facie* case of copyright infringement by

showing that it owns a valid copyright, and that Disney has engaged in unauthorized copying. *See Hasbro Bradley*, 780 F.2d at 192.

It appears to be common ground that Bourne holds a valid copyright on The Song, and that Disney has copied it. The parties dispute whether the copying is authorized under the 1939 agreement.

Where the language of a contract is plain and unambiguous, the court must give it effect without reference to extrinsic evidence. *See, e.g., Hunt Ltd. v. Lifschultz Fast Freight, Inc.*, 889 F.2d 1274, 1277 (2d Cir. 1989).

The license-back expressly gives Disney only the right to record the song in synchronization with the "motion pictures" it makes, to export those "motion pictures" abroad, and to "give public performances of such recordings in connection with the exhibition of the motion pictures with which said recordings were synchronized" (Complaint Exh. D ¶ 3). Further language in the license-back implies that it was limited. *See Id.* ("Upon your request we will deliver to you a separate synchronization license duly executed by us in terms as broad as stated in this paragraph.")

Bourne's claim that synchronized videocassette trailer advertisements are outside the scope of the license-back raises at least sufficiently serious questions going to the merits to make them a fair ground for litigation. Disney is producing videocassettes for home use, and private viewings of home videocassettes are not "public performances." *See* 17 U.S.C. § 101; *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 158-160 (3d Cir. 1984) (distinguishing public showcasing of videocassettes from renting or selling videocassettes for home use on ground that only the former is a "public performance"); *Professional Real Estate Investors*, 866 F 2d at 280-81 (showing video movies in hotel room is not public performance).

Disney relies on *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150, 152-55 (2d Cir.), *cert. denied*, 393 U.S. 826 (1968), where the Second Circuit held that under New York law a contract executed in 1930, which gave the licensee the right "to copyright, vend, license and exhibit such motion pic-

ture photoplays throughout the world," included the right to exhibit the copyrighted motion picture by telecast:

> [T]he licensee may properly pursue any uses which may reasonably be said to fall within the medium as described in the license . . . . If the words are broad enough to cover the new use, it seems fairer that the burden of framing and negotiating an exception should fall on the grantor . . . .

Id. at 155 (citations omitted).

In *Bartsch*, the Second Circuit confined its holding to cases where the disputed new use (there, television) existed at the time the parties signed their agreement. It expressly distinguished situations where the new use was totally unknown at the time the parties entered into their contract. *See* 391 F.2d at 152. Under New York law, if the disputed use was not invented when the parties signed their agreement, that use is not permitted under the contract. *See Kirke La Shelle Co. v. Paul Armstrong Co.*, 263 N.Y. 79, 82-86 (1933). It is undisputed that videocassette technology was not available in 1939. One may thus conclude that Bourne has the better of the argument that its license-back did not permit videocassette uses. *See also Tele-Pac, Inc. v. Grainger*, 168 A.D. 2d 11, 570 N.Y.S.2d 521, 522, 525 (1st Dept.), *app. dism'd*, 79 N.Y.2d 822 (1991) (right to distribute films "for broadcasting by television or any other similar device now known or hereafter to be made known" did not include right to distribute videocassettes because video technology is not a "similar device"); *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 854 (9th Cir. 1988) (same).[6]

Disney argues that it would be unreasonable and inequitable to interpret the license-back in way that does not give it full synchronization rights in all visual media, because it gave the

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[6] Aside from the issue whether Disney can use The Song on videocassettes in any form, there is the question whether advertisements are within the scope of the license-back. Neither party has presented a case or treatise which discusses whether a license to use a composition in "motion pictures" includes the right to use that composition synchronized to visual images in advertisements.

copyright to Bourne without getting any immediate payment. *See Merrill Lynch Commodities, Inc. v. Richal Shipping Corp.*, 581 F. Supp. 933, 939 (S.D.N.Y. 1984) (contractual language "must be construed in light of reasonable business practices designed to preserve 'sanity of end and aim' ") (quoting *Outlet Embroidery Co. v. Derwent Mills*, 254 N.Y. 179, 183 (1930)). However, Disney received direct benefit from the Pinocchio Agreement, because under it Disney profited from Bourne's predecessor's efforts in publicizing and licensing the songs.

Disney argues that the course of dealing of the parties, including numerous instances of its use of The Song for a television or videocassette visual production without a license, shows that the parties agreed that Disney could synchronize the music to any visual production without a license. At this point, the evidence of the parties' general course of dealing is conflicting and inconclusive.

Disney's argument that the license-back should be construed against Bourne, the alleged drafter, invokes no more than a principal "of last resort, to be invoked when efforts to fathom the parties' intent have proved fruitless." *Record Club of America, Inc. v. United Artists Records*, 890 F.2d 1264, 1271 (2d Cir. 1989) (dictum).

2. *Disney's Equitable Defenses*

(a) *Laches*

Disney argues that Bourne is unlikely to succeed on the merits because "the prejudice suffered by [Disney] as the result of [Bourne's] unreasonable and inexcusable delay in bringing the action invokes the bar of laches." *New Era Publications Int'l v. Henry Holt & Co.*, 873 F.2d 576, 584 (2d Cir. 1989), *cert. denied*, 493 U.S. 1094 (1990).

Disney claims that Bourne's delay makes it harder for Disney to support its interpretation of the contract because all persons known to be involved in the negotiation of the agreement, and many of those involved in its interpretation over the years, have died. It further claims that it has changed its position in reliance on Bourne's failure to bring legal action.

Disney claims that over the years it has taken substantial steps to make "When You Wish Upon A Star" its theme song, and to associate The Song with Disney in the public mind. It contends that it would not have done this had it known that it would have to pay licensing fees for visual synchronization uses (4/23/92 Nolan Dec. ¶ 67; Def. Mem. of Law in Opp. at 44).

Even if those arguments prevail, there remain serious questions going to the merits of whether such laches would extend to new forms or uses of The Song, such as the use at issue here, and whether, as a matter of law, the new use is outside the scope of the license-back. If the contract is interpreted as a matter of law in Bourne's favor, the unavailability of certain witnesses might be immaterial. *See Happy Dack Trading Co. v. Agro-Industries, Inc.*, 602 F. Supp., 986, 991 (S.D.N.Y. 1984) (parol evidence not admissible to contradict clear, unambiguous terms of contract).

(b) *Equitable Estoppel*

Disney claims that Bourne is equitably estopped from asserting its copyright rights because of its long period of tacit acquiescence in Disney's allegedly infringing uses.

To prevail on that defense, Disney must establish that: (1) Bourne knew of Disney's infringing conduct; (2) Bourne intended that its conduct be acted on, or acted in such a way that Disney had a right to believe that Bourne so intended; (3) Disney was ignorant of the true facts; and (4) Disney relied on Bourne's conduct to its detriment. *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522, 1539 (S.D.N.Y. 1991) (citing *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 104 (9th Cir.), *cert. denied*, 364 U.S. 882 (1960)); *Jones v Virgin Records, Ltd.*, 643 F. Supp. 1153, 1160 n.19 (S.D.N.Y. 1986).

Although Bourne may bear some responsibility in this situation, at this point it appears that a fact finder could conclude that Disney is the more responsible party because it might have clarified rather than assumed its rights, it took the risk of proceeding on its own interpretation, and it should

therefore face any resulting loss. *Cf. Audit Services, Inc. v. Rolfson*, 641 F.2d 757, 762 (9th Cir. 1981) (defendants who had copy of contract which unambiguously defined their obligations could not assert defense of equitable estoppel; "[e]ven if . . . the trustees intended to mislead the defendants . . . we cannot agree that the defendants were 'ignorant' of their responsibility under the agreement.").

Thus, the equitable defenses do no more than raise sufficiently serious questions going to the merits to make them a fair ground for litigation.

C. *The Balance of Hardships*

The discussion in Part A above addresses the irreparable harm Bourne faces.

Disney argues that the balance of the hardships does not tip decidedly in Bourne's favor, because of the severe harm that a preliminary injunction would cause to Disney.

> [I]t would work a severe injustice for Bourne to have permitted Disney, through decades of inaction, to develop "When You Wish Upon A Star" as its flagship theme song, and then more than 50 years later, after the song has become an integral part of Disney's personality and reputation, reassert a right limiting Disney's use of its established musical theme . . .
>
> . . . Any restraint on Disney's right to utilize "When You Wish Upon A Star" for its own purposes after it has become Disney's signature song would result in incalculable and irreparable harm.

(Def. Mem. of Law in Opp. at 43-44).

The argument is misplaced. The preliminary injunction is limited to prohibiting Disney from opening up new territory during the pendency of this litigation. It preserves the status quo. It does not prevent Disney from continuing to use The Song in the ways it previously has. According to Disney, those prior uses have succeeded in saturating the market and in identifying The Song, in the public consciousness, with Disney (4/23/92 Nolan Dec. ¶ 46). If that is the case, limiting

Disney to those uses during the pendency of this action would not work a severe hardship.

The balance of hardships tips decidedly in favor of Bourne, the copyright holder, in its quest to limit Disney to those prior uses in order to maintain the status quo until the litigation is concluded. *See Uneeda Doll Co. v. Regent Baby Products Corp.*, 355 F. Supp. 438, 445 (E.D.N.Y. 1972) ("the balancing of interests tips the scale in favor of a preliminary injunction: continued infringement not only erodes the plaintiff's statutory copyright but subjects the defendant to ever mounting damage and costs exposure")

CONCLUSION

Bourne's motion for a preliminary injunction enjoining defendants from using the Pinocchio songs for the purpose of producing videocassette trailer advertisements is granted. Specifically excepted from the preliminary injunction are the videocassette trailers on "Rescuers Down Under," advertising Euro Disneyland, which Disney has already produced, and which Bourne offered to license for $.08 a unit. Bourne's motion for a recall of the allegedly infringing videocassettes already released by Disney is denied.

Because this injunction does not extend to the videocassettes already produced by Disney, the bond posted by Bourne probably need not be a great amount. However, the parties have not addressed that question, and should have an opportunity to do so.

In light of the stipulation freezing the situation until the entry of a further order on this opinion, the parties will be given two weeks within which to submit their views on the proper amount of security.

So ordered.

Dated: New York, New York
July 1, 1992

LOUIS L. STANTON
LOUIS L. STANTON
U.S.D.J.

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

No. 94-7793

Filed January 3, 1996

At a stated term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse, Foley Square, in the City of New York, on the 3rd day of January one thousand nine hundred and ninety-six.

BOURNE

Plaintiff-Appellant

—v.—

WALT DISNEY COMPANY

Defendants-Appellees.

A petition for rehearing containing a suggestion that the action be *reheard* in banc having been filed herein by the appellant Beebe Bourne, d/b/a Bourne Co.

Upon consideration by the panel that decided the appeal, it is Ordered that said petition for rehearing is DENIED.

It is further noted that the suggestion for rehearing in banc has been transmitted to the judges for the court in regular active service and to any other judge that heard the appeal and that no such judge has requested that a vote be taken thereon.

FOR THE COURT:
GEORGE LANGE III, CLERK

By: ARTHUR M. HELLER
Arthur M. Heller,
Administrative Attorney

Dated: January 3, 1996

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

No. 94-7793 & 94-7847

Filed February 8, 1996

At a Stated Term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse, Foley Square, in the City of New York, on the 18th day of October, one thousand nine hundred and ninety-five.

PRESENT:

HON. ELLSWORTH A. VAN GRAAFEILAND,
HON. ROGER J. MINER,
Circuit Judges,
HON. DENISE COTE,*
District Judge.

BEEBE BOURNE, d/b/a Bourne Co.,

Plaintiff-Appellant-Cross-Appellee,

—v.—

THE WALT DISNEY COMPANY and
BUENA VISTA HOME VIDEO,

Defendants-Appellees-Cross-Appellants.

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* Of the United States District Court for the Southern District of New York, sitting by designation.

TOWER RECORDS INC., BARNES & NOBLE BOOKSTORES, INC., BLOCKBUSTER ENTERTAINMENT CORP., RKO WARNER VIDEO, INC. and JOHN DOES 1 THROUGH 100,

Defendants.

Appeal from the United States District Court for the Southern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York and was argued by Counsel.

ON CONSIDERATION WHEREOF, it is now hereby ORDERED, ADJUDGED and DECREED that the judgment of said district court be and it hereby is affirmed in accordance with the opinion of this Court.

For the Court
GEORGE LANGE III, CLERK

By: BETH J. MEADOR
Beth J. Meador
Administrative Attorney

VERDICT FORM

1. Did Bourne give Disney the right to use

   (a) the music from Snow White in

   (i) videocassettes — Yes ✔ No ___

   (ii) television advertising and promotions — Yes ___ No ✔

   (b) the music from Pinocchio in

   (i) videocassettes — Yes ✔ No ___

   (ii) television advertising and promotions — Yes ___ No ✔

2. Is Bourne estopped from asserting that Disney does not have the right to use

   (a) the music from Snow White in

   (i) videocassettes — Yes ___ No ✔

   (ii) television advertising and promotions — Yes ___ No ✔

   (b) the music from Pinocchio in

   (i) videocassettes — Yes ___ No ✔

   (ii) television advertising and promotions — Yes ___ No ✔

Excerpts from Trial Transcript–Charging Conference

[1512] MR. BERGER: If your Honor please, we ask for a directed verdict on the issue of videocassettes, because of the holding of the Ninth Circuit in the Cohen case. There is, as a matter of law, under Section 106(3) of the Copyright Act, no grant of sale rights in either of the agreements, notwithstanding Mr. Nolan's creative argument concerning Section 109. I think the evidence in this case—it is really a legal question, your Honor—is that videocassettes were not licensed by virtue of either the '33 agreement, the '37 agreement or the '39 agreement.

THE COURT: Denied.

* * *

[1528] MR. LITVACK: In addition to that, your Honor, Section 109(a) of The copyright Act I think is controlling here. As we pointed out in the memorandum we submitted to the Court the other day, under 109(a) and under the first sale doctrine these are rights which are inherent. There is no issue in this case about the distributing of the cassettes. I think to inject that at this point is to confuse or mislead, unintentional though it may be, the jury in a way that I think should not be done at this point.

MR. MAX: Your Honor, I am not sure if much response is required, but I think it is clear, and we have briefed this issue, that 109 does not apply. It is pretty clear from Section 106 of the Copyright Act that the right to distribute is a separate right. 109 relates to a wholly different issue. I believe the testimony and some of the documents that, indeed, defendants have introduced into evidence indicate that the works in question are derivative works that were created. So that a separate right to sell would be required under the Copyright Act. I refer the **[1529]** Court to our briefing on that issue. I think it is a pretty clear issue of law.

MR. LITVACK: Not to have the last word but hopefully to be helpful, I would point out to your Honor Section 109 starts with the words "Notwithstanding the provisions of Section

106(3)." That is the point. Put aside 106(3). 109 is what is applicable. I invite the plaintiff to cite a single case that supports the proposition they are urging upon you. I know of none. And they have cited none that I am aware of.

THE COURT: Let's move along. I am going to leave it as it is for the time being.

MR. BERGER: I don't know how it reads now.

THE COURT: "At issue in this case is whether Disney has the right to use musical compositions from Snow White and Pinocchio in making and distributing videocassettes for home viewing and for television advertising and promotional purposes."

* * *

[1530] MR. BERGER: No, I think there are two issues in that first paragraph. You indicated that you were going to make the change this morning. That is not the part, obviously, I am objecting to. I am objecting to the part that says we have the burden of proof to show that Disney's use of the copyrighted work is unauthorized. Our authority for that, your Honor, is the cases that are cited on page 6 of our objections dated March 1, 1993, namely, the Feist and Baxter cases and 3 Nimmer Section 13.10.

MR. BERGER: I assume you are intending to insert a sentence preceding that to the effect that Bourne has valid, existing copyrights in the compositions at issue?

THE COURT: Yes. I am just doing it now.

MR. LITVACK: I assume you are just going to say the burden is on Bourne to prove by a preponderance of the evidence in the case that Disney's use of the copyright was unauthorized. You have already ruled on the other elements.

MR. BERGER: But it won't be clear to the jury unless you make the statements.

I have a suggestion. I am going to give you a suggestion, but I am going to object to the second half. I am just trying to help the Court get on with its role here.

THE COURT: Thanks.

MR. BERGER: I am going to start the paragraph [1531] with: Bourne has valid, existing copyrights in the compositions at issue. Then I would start the next sentence: Bourne's remaining burden is to prove by a preponderance of the evidence in the case that Disney's use of the copyrighted work is unauthorized." But, of course, that is the part I am objecting to.

THE COURT: I understand. You are reserving your objection and helping me with the drafting of it. I understand both and I appreciate it.

MR. BERGER: I think that says it clearly.

THE COURT: I think it does. It is probably better for the defendant than what I was preparing to say, which was that I had determined as a matter of law that Bourne had established its claim.

* * *

[1573] MR. MAX: Your Honor, and I believe we went over this a little bit earlier, Section 109 relates to copies that are made lawfully. And with regards to videocassettes, that would be either a copy that is made under a license from the copyright owner with their permission or a videocassette that is made by the owner of the copyright. That is not the case here. Disney is not making the videocassettes with permission of Bourne. So the fair use application does not apply here. They have to have the right to fix or synchronize, and they have to have the right to sell.

Also, the grant in question here, that is, the grant under the '39 act, for example, taking that, does not [1574] include the right to sell, and it has a limited distribution right, which is, we submit, for theatrical distribution, not for videocassettes, and that is why the licenses are different for videocassettes versus motion pictures.

So Mr. Litvack's statement and his stretching to apply Section 109 just doesn't work here, and the rights, that is, the right to synchronize on videocassettes or to fix, and the right

to sell, are two separate rights, either of which can be infringed. You could have a situation where someone manufactures videocassettes and they do not sell those, but they are in a warehouse, and the fixing right of creating and manufacturing those videocassettes has been infringed. You would also then have a situation where that same person sells those videocassettes. That would be the infringing of a second right. If that person sold the videocassettes down the stream of commerce, those subsequent sales would still be infringements unless the original infringer had permission to make that videocassette.

So it is plaintiff's position that 109 doesn't apply here. We submit that the cases that we cited in our brief objecting to the charges submitted by defendant demonstrate that. We could provide additional law on that subject as well. The two rights are separate rights under Section 106 of the Copyright Act.

THE COURT: How can they be separated with **[1575]** respect to the second question and the evidence with respect to estoppel?

MR. MAX: With regards to the second question?

THE COURT: That's right.

MR. MAX: With regards to estoppel, the right to sell is separate from the right of creating videocassettes. You could have videocassettes that are created and not sold. That is a separate right under the copyright law. And you could—

THE COURT: Mr. Max, I am not asking about the copyright law. I am asking about the evidence in the case with respect to the defense of estoppel. In what way can it be articulated separately or as applying separately to the right to synchronize and the right to sell?

MR. MAX: Because the rights, your Honor, are identified under the Copyright Act as separate rights, and with regards to estoppel you would apply the criteria, the factors, for estoppel with regards to each, the fixing and the selling.

THE COURT: How could the jury, on the evidence, come to one decision about the fixing and another decision about the selling?

MR. BERGER: May I? I can think of a situation, your Honor.

THE COURT: Think of one in this case.

[1576] MR. BERGER: Yes, exactly.

THE COURT: All right.

MR. BERGER: They can reject Mr. Nolan's conclusions that the logic of 109 applies, in that the right to sell is implied by the law, and then you could have two different findings under two different rights.

THE COURT: Estoppel turns on the actions of the plaintiff.

MR. BERGER: Yes, and then you have the reliance and the "but for" element. So they could find that one of those elements is missing for the selling right, because they may not believe—Korman said otherwise. They may believe Korman, and they may say, no, I don't believe you, Mr. Nolan, that you came to that conclusion and acted on the basis of anything that Bourne did.

THE COURT: With respect to selling but not with respect to synchronization?

MR. BERGER: Well, either one. You asked me what the evidence in this case could allow the jury to come to two different determinations and I gave it to you, depending on what portions of Mr. Nolan's testimony they chose to believe or disbelieve.

MR. LITVACK: If I may, your Honor, I know you are focusing on the question you have asked, and I respectfully want to call your attention to two other things **[1577]** that I think are really important. One is what I said a moment ago, and then one is something I said the other day. Mr. Max sort of almost concedes the point. 109 starts with the premise—

THE COURT: Notwithstanding anything—

MR. LITVACK: No, that you can do this. And so, of course, there are separate rights, the law gives it to you. The point I am making to you and the point I made the other day and I will make it one more time and I will sit down, and I say this respectfully, your Honor, the problem that was created—and I said this at sidebar—is: This is an issue for you in the first instance, not for the jury. They can't accept and reject Nolan about what he thinks about 109. They have never even read 109. What are they going to do? That was the problem. Whether Mr. Korman thinks or Mr. Nolan thinks Section 109 relates to 106 or doesn't, how is a jury with no guidance, with no help, going to decide that?

I said the other day, I respectfully submit to you, your Honor, that is a question for you. I am confident that I am right in what I tell you. But if you disagree with me on the law, then you are to go one way; if you agree with me on the law, you are to go another way. But in neither event, I respectfully urge, should you dump it in their laps. They can't deal with this question, they can't, **[1578]** not in this case, not the way it has been tried, not where we are at.

MR. MAX: Your Honor, with regards to the discussion of 109, I think Mr. Litvack is trying to extricate himself from a problem which he created. He had Mr. Nolan testify that, with regards to videocassettes, all you need is a sync right. That is all you need. You don't need a performance right because it is in the home and there is no license for home performances. What he left out was the right to sell. You could have a situation where a license is granted by a music publisher to a motion picture production company by which they have the rights to make a motion picture that is sync'd, that is, synchronize the song in a motion picture. They have the right to distribute that motion picture for public performances in theaters. So under Section 106 they would have the synchronization right and the performance right. Under 109 they would not be able to sell it, because the license grant under the Copyright Act would not permit them to sell it, because

the distribution rights granted to that film would be limited to distribution for public performances.

Moreover, in this situation it is even more complicated because we have a fixing and then we have videocassettes which are sold. And it is outside the scope of the original grant. I think we need a determination as **[1579]** to those issues, especially in light of defendants' position, Mr. Nolan's testimony, and especially in light of the fact that they are trying to blur that distinction and say all we need is a synchronization right. And a motion picture is a video, they are the same things. They are trying to blur the issues, trying to separate the issues with regards to the right to sell and the right to synchronize.

So I think Section 106 makes it pretty clear, and I think with regards to the verdict form, that it should stand as Mr. Berger drafted it.

MR. BERGER: Could I add one point in the hope of clarifying this? It seems to me that Section 109 begs the question, because it says notwithstanding 106, but it also says that when the holder of the articles has it lawfully, he may sell it. That is the question. Does he have it lawfully in this case? So in effect what Mr. Nolan was trying to do was to sort of bootstrap himself into the right to dispose of it on the premise that he came into possession of it lawfully. What this jury is going to have to decide is: Did they come into possession of it lawfully?

THE COURT: Yes. That is why the separation is artificial. I think the net is that Mr. Litvack has the better of this argument on the law, and we will stick with the two questions, not the separation of the distribution or **[1580]** sale right.

I am also inclined to think that the direct question as raised by Mr. Litvack is probably the best of all. We ought to establish a text so that I can have it prepared and so that you know what you are arguing to. I think we are very close to it, but we ought to finish it up.

MR. LITVACK: I will read what I have, your Honor: Does Disney have the right to use:

A. The music from Snow White in (1) videocassettes, (2) television advertising and promotions.

B. The music from Pinocchio in (1) videocassettes, (2) television advertising and promotions.

Question number two.

THE COURT: The subdivisions are the same as in my draft.

MR. LITVACK: Precisely.

THE COURT: With the addition of the word "television" in front of it.

MR. LITVACK: And promotions instead of commercials.

MR. LITVACK: As to question 2, it would read:

2. Is Bourne estopped from asserting that Disney does not have the right to use:

A. The music from Snow White in (1) videocassettes, (2) television advertising and promotions.

[1581] B. The music from Pinocchio in (1) videocassettes, (2) television advertising and promotions.

May I also, your Honor, suggest that on page 10, if we are going to have them answer both questions—

THE COURT: That was something you wanted to reflect on further.

MR. LITVACK: Yes, your Honor.

MR. BERGER: Can the record indicate that I object to this form?

THE COURT: Yes. But we are just hearing it.

MR. BERGER: No, the form.

* * *

[1584] MR. LITVACK: Your Honor, may I call to your attention just two other things. On pages 8 and 9, I would request, you remember you said—I just want to make sure it

doesn't get lost in the shuffle, as it were—at the bottom of page 8 you said subject to further notice, and I would like to give further notice. I would request that that sentence read: "The issue in this case is whether Disney has the right to use musical compositions from Snow White and Pinocchio on videocassettes for home viewing and for television advertising," etc.; that we take out "in making and distributing."

MR. BERGER: That I would, of course, object to, your Honor.

[1585] THE COURT: Yes, consistent with what you said all along and what Mr. Max has argued. But consistent with my ruling, I am going to go back to "on" instead of "making and distributing," and your point is saved.

MR. MAX: Your Honor, if I may be heard on that?

THE COURT: I think this will be the last voice on it.

MR. MAX: Yes. I think to just say to use "on videocassettes" is terribly misleading.

THE COURT: What would you prefer that conforms to my ruling?

MR. MAX: Your Honor, if I may just clarify your ruling. Your ruling was based on—

THE COURT: I have stated it.

MR. MAX: Was it based on 109? Is that the basis?

THE COURT: Yes. Now we are talking about the text on page 8.

MR. MAX: Could we have language on videocassettes sold to the public for private home use?

THE COURT: I am going to say videocassettes for home viewing. I am not going to let the distinction between synchronization and selling come creeping back in. I may be right, I may be wrong, but at this point I am clear on that. I think the record is probably clear too, as clear as most **[1586]** records to the Court of Appeals get.

MR. LITVACK: Page 9, your Honor, the same change.

THE COURT: The came change.

MR. BERGER: You are adding "for home viewing"?

THE COURT: I think instead of "on," which is a little blunt, "in connection with." "In connection with videocassettes for home viewing or in television advertising."

Thank you all very much.

Excerpts from Trial Transcript–Jury Charge

[1702] At issue in this case is whether Disney has the right to use musical compositions from Snow White and Pinocchio in connection with videocassettes for home viewing, and for television advertising and promotional purposes.

Bourne has valid, existing copyrights in the compositions at issue. In order to establish its claim, the burden is on Bourne to prove, by a preponderance of the evidence in the case, that Disney's use of the copyrighted work is unauthorized.

You must look to the contracts and to the parties' understanding and intent when they entered into them in order to determine whether Disney has the right to use the compositions in connection with videocassettes for home viewing or in television advertising. The contracts were signed many years ago, and the actual signatories were not available to testify here. Hence, you may look to other evidence to determine the understanding and intent of the parties.

You may consider the contracts themselves, correspondence between the parties concerning the contract and all the circumstances that you find existed then.

In addition, you may consider the practical construction or interpretation the parties gave to the **[1703]** contracts over the years. These may be shown by the parties' acts, conduct or declarations over the years, including use of the compositions in various media, as long as they indicate mutual intent and understanding between the parties. If one of the parties accepts a known interpretation by the other, that is evidence of practical construction.

In determining the intent of the parties, you may also consider the testimony you have heard regarding the customs and practices of the entertainment industry during the relevant times and the changes in technology between the 1930s and today.

There is a presumption that when parties enter into agreements, they are acting in a commercially reasonable manner. However, the parties should be held to the terms to which they agreed. It would be improper to use a process of interpretation to relieve a party from a disadvantageous contract to which the party actually agreed.

Excerpts from Trial Transcript–
Hearings Prior to Verdict

[1724] (2:45 p.m., in open court, jury not present)

THE COURT: I'll read the most recent question which you have had a chance to see into the record. It has been marked as Court Exhibit 4. And it states:

"In the light of your reply concerning rights for videocassettes, what kinds of rights are required by Disney to *produce* (not perform) such cassettes?"

MR. LITVACK: Your Honor, I think the answer to that question is very simple and straightforward. The answer to the question is synchronization rights. That's what we have been talking about and I think it is a straightforward answer. That's what they need to produce it.

MR. BERGER: I think that's, again, a misleading response because I think there are two rights that are required. The right to synchronize or fix the copyrighted music onto the videocassette—

THE COURT: That's called a synchronization right, isn't it?

MR. BERGER: It's the same thing he is talking about, but I think the word "fix" is more appropriate to videocassette. In the case here if you are—say, take Pinocchio from the film to the videocassette. It is already synchronized so you are fixing the synchronized version onto the videocassette, so we can use the terms interchangeably. **[1725]** And the right to sell the videocassettes to the public for private home use.

They didn't use the precise words. They used a term that is a neutral term. That's why I think a complete answer would call for identifying both rights.

MR. LITVACK: They have asked specifically for the right to produce. Indeed, the plaintiff always argued you can have the right to produce and then you can put the stuff in your basement, is what Mr. Max was saying yesterday. The right to produce is the synchronization right. That's the right we're talking about.

MR. BERGER: I took the liberty of writing ot out, your Honor, if you want to see what I said.

THE COURT: Thank you.

MR. BERGER: You know, actually, if I could just say one additional thing, Judge. The other document this morning which was in response to their second question—

THE COURT: You showed me another form of lease.

MR. BERGER: This is the Disney form. It's spelled out there in the Disney form because this is the license for the videocassette Simply Mad About The Mouse. And that is from one Disney entity to another authorizing the other Disney entity to produce the videocassette Simply Mad About The Mouse.

MR. LITVACK: No, no. To produce, to sell, to **[1726]** distribute. They are all separate. What they have asked about is what do you need to produce. The answer is synchronization.

THE COURT: Yes, I think they draw a clear distinction between performance and production and the right required to produce is the synchronization right. I will answer it that way.

MR. BERGER: Your Honor, there is an intermediate right before you get to performance.

THE COURT: They don't ask about performance.

MR. BERGER: But the word "produce" is not a word in the statute. They are using a neutral term.

THE COURT: But they are using their term. The answer is their term. To produce the videocassette you need the right to synchronize the music. As I really think that's the right answer.

MR. BERGER: I respectfully disagree, your Honor.

THE COURT: And you have read yours into the record. You can mark it for identification if you want to.

MR. BERGER: (To the reporter) Just copy it into the record. That will be sufficient.

("The right to synchronize or fix the copyrighted music onto the videocassettes and the right to sell the videocassettes to the public for private home use."

THE COURT: What is the correct term? You [1727] synchronize the music to what, the action?

MR. LITVACK: To the visual image.

THE COURT: To the visual image.

I'll read into the record what I have written in response and counsel are free to look at it. It states:

"The answer to your question is that the right required to '*produce* (not perform)' videocassettes is the right to synchronize the music to the visual image."

Anybody who wants to take a look at that is free to do so.

MR. BERGER: I think you should add, "onto the videocassette."

THE COURT: I think it can stand as it is.

MR. BERGER: Because you always talk of it in terms of a particular medium.

THE COURT: It's the visual image.

MR. MAX: Your Honor, you may have a synchronization right for motion pictures or for television which would not grant videocassette rights.

THE COURT: That's the argument you are making in the case.

MR. MAX: No, your Honor.

MR. BERGER: You need to add the medium.

THE COURT: Tell me the language you prefer.

MR. BERGER: "Synchronize the music to the visual [1728] image onto videocassettes."

THE COURT: It says onto videocassettes.

I think I will send it in.

MR. BERGER: You know my view on this.

THE COURT: I think it is clear.

(Pause)

THE COURT: As you see, I just received another note from the jury. I will have it marked as Court Exhibit 5. It reads as follows:

"Can we please have the judge's definition of the doctrine of estoppel read back to us (as it pertains to the distinction between No. 1 and No. 2 on the verdict form)."

You are welcome to take a look at it. I suspect the answer is to read them back the charge on estoppel.

MR. LITVACK: That part's easy. The "as pertains to" I don't understand.

(Pause)

THE COURT: Gentlemen, I think the solution has just occurred to me. That's all they want read back. They don't want to hear any more about the first question. I suspect that's what they are saying.

MR. LITVACK: You you think they are saying just read us the estoppel part. That I understand. "As it pertains to" throws me. I think the best thing to do is to read back the estoppel part.

**Excerpts from Trial Transcript–
Jury Verdict**

[1740] THE CLERK: Ms. Forelady, do you have a verdict?

THE FORELADY: Yes.

THE CLERK: Thank you.

(Pause)

THE CLERK: Members of the jury, please listen to your record as it will stand in court.

Question 1. Did Bourne give Disney the right to

(a) the music from Snow White in:

(i) videocassettes:

Answer: Yes.

(ii) television advertising and promotions:

Answer: No.

(b) the music from Pinocchio in:

(i) videocassettes:

Answer: Yes.

(ii) television advertising and promotions:

Answer: No.

Question 2. Is Bourne estopped from asserting that Disney does not have the right to use:

(a) the music from Snow White in:

(i) videocassettes:

Answer: No.

[1741] (ii) television advertising and promotions:

Answer: No.

(b) the music from Pinocchio in:

(i) videocassettes:

Answer: No.

(ii) television advertising and promotions:

Answer: No.

So say you all.

THE COURT: Do counsel want the jury polled?

MR. LITVACK: Yes, your Honor.

THE COURT: Very well.

* * *

1937 Agreement

AGREEMENT made this 12th day of October 1937 between IRVING BERLIN, INC. of the City of New York, hereinafter designated as the "PUBLISHER" and WALT DISNEY PRODUCTIONS, LTD. hereinafter designated the "COMPOSER."

W I T N E S S E T H

1. The COMPOSER hereby sells, assigns, transfers and delivers to the PUBLISHER, its successors and assigns the original musical compositions written and composed by WALT DISNEY PRODUCTIONS, LTD. and bearing the titles of "One Song"—"Whistle While You Work"—"Some Day"—"With a Smile and a Song"—"I'm Wishing"—"Bluddle-uddle-um-dum"—"A Silly Song"—"Dig-a-dig-dig"[—]"Heigh-Ho" including the title, words and music thereof, TO HAVE AND TO HOLD, the same absolutely as to the PUBLISHER its successors and assigns forever, together with all rights therein, or any copyright now subsisting, for all Countries that the COMPOSER now has or may be entitled to or that he could or might secure if these presents had not been made, including the publishing rights, the performing rights, the cinematographic and radio broadcasting rights, the rights to use the same for mechanical reproduction, the right to make, publish and perform any arrangement or adaptation of the same and all copyrights and the rights to secure all copyrights and extensions and renewals of copyrights in the same, or in any arrangements or adaptations thereof.

* * *

3. IN CONSIDERATION, hereunder in reliance upon the truth of each and every representation by the COMPOSER being herein made the PUBLISHER agrees to the COMPOSER the following royalties to wit:

(a) Four cents (4¢) upon each and every complete printed pianoforte copy and two (2¢) cents upon each and every completed printed orchestration or band copy of the said work sold by the PUBLISHER in the United States and Canada only.

(b) And the COMPOSER agrees that the PUBLISHER shall be under no obligations to pay any other sum whatsoever except as in this agreement provided and that no royalties shall be paid upon the following: complimentary copies; copies sold but not paid for; copies sold and returned to the PUBLISHER; copies sold or given away as new issues or for advertising purposes; professional copies; copies included in folios or books or published in newspapers, magazines or other periodicals; or other arrangements of or containing said work or any part thereof.

The PUBLISHER will pay to the COMPOSER a sum equal to one-half (1/2) of any and all royalties that the PUBLISHER shall actually receive from the use of the said musical compositions for mechanical reproductions less one-third (1/3) cost of collection under the license of the PUBLISHER in the form of playing rolls, including word rolls, records, discs, or other devices for the mechanical reproduction of the said musical compositions.

WHENEVER the said compositions or any part thereof shall be used by the Manufacturer of any mechanical reproducing device in connection with any other musical composition or part thereof for the purpose of recording said compositions or parts thereof as a medley, the PUBLISHER shall pay to the COMPOSER a royalty in lieu of the royalty hereinbefore specified as mechanical royalty to be determined as follows. The sum actually received by the PUBLISHER by reason of the mechanical reproduction of said medley shall be divided among and allocated to the compositions comprising said medley; and in determining such proportions the verse of any composition shall count as one part and the chorus as one part and each repetition of either verse or chorus shall count as one part and the COMPOSER shall be entitled to a sum equal

to one-half (1/2) of the moneys so allocated to the compositions the subject of this contract.

The foregoing rates of royalty apply only to the United States of America. With respect to royalties for the use of the above compositions in other countries the Publisher will pay to the Composer a sum of money equal to one-half (1/2) of any and all royalties that the Publisher shall actually receive from the use of said musical composition, less deduction for taxes, including the sale of pianoforte copies, mechanical rights and rolls or for any other use excluding, however, any sums paid to the Publisher as an advance. It is specifically provided, however, that the rates of royalty with reference to Canada shall be a sum equal to one-half (1/2) of the rates applicable to the United States on sheet music. Other rates of royalty applicable to Canada shall be the same as those applicable to countries outside of the United States.

98a

1939 Agreement

SALE and AGREEMENT

of

Musical Composition Entitled

_____

BY

COMPOSER OF MUSIC

AND

AUTHOR OF WORDS

_____

TO

IRVING BERLIN, INC.

_____

Dated _____ 193

August 15, 1939.

Walt Disney Productions,
Hollywood, California.

Gentlemen:

The following is our understanding:

* * *

3. As to all the "music" and the lyrics thereof if any, affected hereby, simultaneously with such conveyance thereof to us, we hereby grant to you for the duration of the copyrights thereof and all renewals thereof (to the extent we acquire such renewal terms of copyright) and for all of the countries of the world to the extent we own such right, the non-exclusive right to mechanically and/or electrically record the said musical compositions and/or lyrics, if any, in synchronism with any and all of the motion pictures which may be made by you and the right to export such recordings to all of the countries of the world, and the right to give public performances of such recordings in connection with the exhibition of the motion pictures with which said recordings were synchronized. The right hereby granted shall include the right to make any arrangements or adaptations of the musical compositions and/or lyrics, if any, necessary for the making of the said synchronized recordings. Upon your request we will deliver to you a separate synchronization license duly executed by us in terms as broad as stated in this paragraph.

* * *

5. With respect to each composition published by us hereunder, we will pay to you the following royalties, to-wit;

* * *

(b) A sum equal to one-half (1/2) of any and all royalties that we shall actually receive from the use of the said musical composition for mechanical reproduction under our license in the form of player rolls, including word rolls, records, discs, electrical transcriptions or synchronization in motion pictures, or other devices for the mechanical reproduction of the said musical composition, less, however, any agent's or trustee's fee for collection of said royalties.

1933 Agreement

AGREEMENT, dated September 26th, 1993, between IRVING BERLIN, INC., a corporation, (hereinafter called the Publisher) and WALT DISNEY PRODUCTIONS, LTD., a corporation, (hereinafter called the Corporation),

* * *

2. The Corporation hereby grants and gives to the Publisher the right and authority to obtain and register the said respective copyrights (or the part of such copyrights which the Corporation may have or be entitled to obtain or register) of all original music written by persons in the employ of or under contract with the Corporation, to be published by the Publisher under the terms of this contract. The Publisher agrees to forthwith grant and convoy to the Corporation the right to record, or permit its producing agencies to record, such music, mechanically, and perform and license others to perform the same in connection with the respective motion picture for which such music was especially written, the right to record such music mechanically in any and all other motion pictures to be produced by the Corporation or its producing agencies, the right to ship, import and export and to license others to ship, import and export, any and all such mechanical recordings throughout the world, but only in connection with the Corporation's pictures. The Corporation reserves television rights in respect to its motion picture comic cartoons, including the music and sound effects accompanying and/or appertaining to the same.

1909 Copyright Act, 17 U.S.C. § 27

§ 27. Copyright distinct from property in object copyrighted; effect of sale of object, and of assignment of copyright

The copyright is distinct from the property in the material object copyrighted, and the sale or conveyance, by gift or otherwise, of the material object shall not of itself constitute a transfer of the copyright, nor shall the assignment of the copyright constitute a transfer of the title to the material object; but nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.

1976 Copyright Act, 17 U.S.C. Sections: 101, 106, 109(a) & (b), 202

§ 101. Definitions.

* * *

A "transfer of copyright ownership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

§ 106. Exclusive Rights in Copyrighted Works.

Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

§ 109. Limitations on Exclusive Rights: Effect of Transfer of Particular Copy or Phonorecord.

(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

* * *

(d) The privileges prescribed by subsections (a) and (c) do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it.

§ 202. Ownership of Copyright as Distinct From Ownership of Material Object.

Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.

(2)

No. 95-1593

Supreme Court, U.S.
FILED
MAY 6 1996

In The

Supreme Court of the United States

October Term, 1995

BEEBE BOURNE, d/b/a BOURNE CO.,

Petitioner,

vs.

THE WALT DISNEY COMPANY
and BUENA VISTA HOME VIDEO,

Respondents,

TOWER RECORDS, INC., BARNES & NOBLE BOOKSTORES, INC., BLOCKBUSTER ENTERTAINMENT CORP., RKO WARNER VIDEO, INC. and JOHN DOES 1 THROUGH 100,

Defendants.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

RESPONDENTS' BRIEF IN OPPOSITION

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RESPONDENTS' STATEMENT OF THE QUESTIONS PRESENTED

Respondents The Walt Disney Company and Buena Vista Home Video (collectively, "Disney") respectfully submit that, when the hyperbole is stripped from the Petition of Beebe Bourne, d/b/a Bourne Co. ("Bourne"), the real issues presented are:

1. Did the Court of Appeals err in holding that (a) licenses giving Disney the right to record certain songs in synchronism with any and all of its "motion pictures" were ambiguous as to the scope of that term, and, therefore, (b) the jury was properly allowed to consider extrinsic evidence to decide whether the licenses included videocassettes of Disney's motion pictures?

2. Did the Court of Appeals err in holding that Bourne, as the party claiming that Disney exceeded its rights under licenses from Bourne, had the burden of proving that Disney's conduct was unauthorized?

3. Did the Court of Appeals err in holding that, given the jury's finding that the licenses entitled Disney to record the songs on videocassettes of its motion pictures, the "first sale doctrine" embodied in 17 U.S.C. § 27 of the Copyright Act of 1909 and 17 U.S.C. § 109 of the Copyright Act of 1976, permits Disney to sell its lawfully-made videocassettes?

LIST OF PARTIES AND CORPORATE AFFILIATES

Respondent The Walt Disney Company, a publicly held Delaware corporation, has no parent company and no nonwholly owned direct subsidiaries. Nonwholly owned indirect subsidiaries of The Walt Disney Company are ESPN, Inc.; Worldwide Television News Corporation; ESPN 88 (U.K.); and WD Consumer Products Private Limited (India). The parent company of respondent Buena Vista Home Video is Disney Enterprises, Inc., a subsidiary of The Walt Disney Company. Buena Vista Home Video has no nonwholly owned subsidiaries.

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3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright*, § 10.10[C] (1993) 16, 19

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Disney respectfully opposes Bourne's Petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Second Circuit.

STATEMENT OF THE CASE

In an attempt to induce this Court to grant certiorari, Bourne has sought to depict this case as one having sweeping ramifications for all holders of any type of rights in music, motion pictures, television, compact discs, computer software, CD-ROM, "and all new media, technologies and means of distribution." Pet. at 2. In other words, according to Bourne, this case involves every aspect of every kind of intellectual property. Nothing could be further from the truth.

In reality, this case is a contract dispute between two parties about the meaning of certain key terms in a handful of agreements drafted sixty years ago. After examining a host of evidence regarding, among other things, the parties' relationship and course of conduct over six decades to determine their intent, the jury returned a verdict in favor of defendants.[1] That judgment was unanimously affirmed by the Court of Appeals, which also rejected a motion for rehearing.

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[1] The jury ruled in favor of defendants by answering two interrogatories declaring that defendants had the right under the agreements to use the music from Disney's motion pictures "Snow White and the Seven Dwarfs" and "Pinocchio" in videocassette format. The jury ruled against defendants on (1) their right to use that music in paid television advertisements and (2) the affirmative defense of estoppel. Neither of these latter two rulings is before this Court.

Factual Background

In 1937, Walt Disney pioneered the field of animation by creating the first full-length animated motion picture, "Snow White and the Seven Dwarfs," followed in 1940 by the classic "Pinocchio." In addition to creating the animation artwork and ground-breaking cinematic techniques, Disney employees created all of the songs written for and used in those motion pictures.

During the 1930s, although Disney was not in the music publishing business, it nevertheless recognized that broad-based publication and dissemination of its songs would help enhance the success and value of its motion pictures. As a result, starting in 1933, Disney gave the copyrights in a number of songs from its animated cartoons, as well as those from "Snow White" and "Pinocchio," to Bourne's predecessor, Irving Berlin, Inc., which was then the best known music publisher in the country. The purpose of the transfer was for Berlin to exploit the music through sales of sheet music and music rolls (popular at the time) and through license to third parties, of whose royalty payments Disney received half.

Disney did not, however, give up its right to use the music it had created, since that music was at the very heart of the motion pictures Disney was producing. Thus, beginning with its first contract with Berlin, a 1933 agreement addressing certain motion picture cartoons, Disney received a license to record and synchronize its songs "in any and all other motion pictures to be produced by [Disney]." As the jury found, Disney's transfer to Bourne of the copyrights to the "Snow White" music in 1937 was subject to the terms of that agreement, and particularly its

provisions licensing Disney to use the songs in all of its motion pictures.

In 1939, Disney again contracted with Berlin, this time to permit Berlin to exploit the music Disney was creating for "Pinocchio." Once again, the agreement gave Disney a license to record and synchronize the musical compositions and lyrics with "any and all of the motion pictures which may be made by [Disney]."

With these rights in hand, Disney proceeded to utilize and promote the songs (including the classic *When You Wish Upon a Star*) literally tens of thousands of times during the ensuing decades, all without complaint from Bourne. Thus, Disney used the music with its films in all media as they developed, starting in the 1930s with short-subject motion pictures for sale and rental for home viewing; in the 1950s, when Disney became a fixture on television with its famous weekly series that spanned four decades; and in the early 1980s, when Disney began to release its classic motion pictures on videocassette. All the while, as Disney used the songs from "Snow White" and "Pinocchio" in an ever-expanding range of new formats, Bourne (and its principal, who had negotiated the agreements) stood silent, never asserting that Disney's rights were somehow circumscribed as Bourne now claims.[2]

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[2] Saul Bornstein, who founded Bourne after he and Irving Berlin split, negotiated the agreements in issue. During his lifetime, neither he nor the company ever claimed (as Bourne does now) that Disney could not use the music with its motion pictures in any format. It was not until 1981, twenty years after Bornstein's death, that Bourne first questioned Disney's use of the music on television. Even then, when Disney flatly rejected the assertion, Bourne took no action for ten more years.

Although Bourne never sued while the parties who negotiated the agreements were alive, in 1991 Bourne filed a lawsuit claiming that Disney's uses of the songs on videocassette, as well as in paid television advertising, infringed Bourne's copyrights.[3] Bourne contended that the license agreements were unambiguous as a matter of law, and could not be interpreted to permit Disney to record the songs on videocassette copies of its motion pictures. In particular, Bourne argued that the agreements could not encompass videocassette rights because videocassettes did not exist in the 1930s.

In response, Disney asserted that the license provisions broadly permitting it to use the songs with any and all of its "motion pictures" were ambiguous, and that extrinsic evidence was needed to enable the jury to determine the scope of Disney's rights. Disney emphasized that the issue for the jury was whether the words in the license agreements covered the new use. The trial court agreed, and let the jury decide whether, based on all the facts, the agreements permitted the uses in issue.

Since Bourne had waited half a century to file suit, the witnesses who had negotiated the 1930s agreements had all died. Nonetheless, at trial, Disney and Bourne offered extensive documentary evidence and testimony regarding the parties' course of dealing over the years, as well as expert testimony regarding the meaning and understanding of the

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[3] In reality, at trial Bourne claimed that Disney could *only* use the music in the full-length motion pictures when shown in theaters. So, Bourne contended that Disney could not use the music in previews for the motion pictures, on television, in short subjects, etc. Yet this was precisely what Disney had done for decades, as Bourne silently watched.

term "motion pictures," especially in the entertainment industry during the 1930s.

After a three-week trial, the jury decided that the agreements authorized Disney to incorporate the songs in videocassettes of its motion pictures, and that such uses did not infringe Bourne's copyrights. On a separate claim, the jury found Disney had infringed Bourne's copyrights by using the songs in certain television advertising. The parties stipulated to damages on that claim, which is not at issue in Bourne's Petition.

The Court of Appeals for the Second Circuit affirmed the lower court's ruling and rejected Bourne's argument that the "first sale doctrine" required Disney to prove it had a separate right to sell videocassettes it was legally entitled to make. The Court of Appeals also rejected Disney's cross-appeal. Bourne now petitions this Court to review the decision of the Court of Appeals.

REASONS THE PETITION SHOULD BE DENIED

The Petition should be denied because, despite all the efforts to create a contrary impression, the plain truth is that the ruling below involves neither a conflict among the Circuits nor an important issue of controlling law. To the contrary, the Second Circuit's decision affirmed a factual finding by a jury, after an analysis consistent with the teachings of this Court and the other relevant precedents.

1. The Second Circuit's Ruling That the Scope of the Agreements Was an Issue for the Jury Was Correct and Presents No Novel Issue of Law

According to Bourne, the term "motion pictures" means, and could mean, only one thing -- celluloid film. Pet. at 16. Bourne therefore asserts that the Second Circuit's "holding . . . that [the] licenses [in this case] . . . included the right to make videocassette recordings" somehow "destroys a judicial template" established by this Court and many courts of appeals. *Id.* at 6, 13. Despite Bourne's dramatic claim, the fact is that the Second Circuit's ruling is neither novel nor far-reaching, and the authorities on which Bourne relies simply do not support its arguments.

A. The Second Circuit Did Not Decide the Scope of the License Agreements

Bourne fundamentally misstates the Court of Appeals' holding. The Second Circuit absolutely did not rule that the 1930s agreements conferred videocassette rights. To the contrary, the court first carefully examined the language of the agreements, and particularly the term "motion pictures' (which was not defined in the agreements), to determine whether the term, when viewed with the other provisions of the contracts, was unambiguous or somehow limited. After doing so, the court flatly declined to declare, as a matter of law, what the agreements meant. As the court put it,

> [W]e cannot agree [with Bourne] that the term "motion picture" has a sufficiently definite and precise meaning as to allow for interpretation as a matter of law.

Pet. App. 19a.

The Court of Appeals then addressed whether the grant of motion picture rights was broad enough potentially to encompass motion pictures on videocassette. Pet. App. 20a (citing *Bloom v. Hearst Entertainment, Inc.*, 33 F.3d 518, 525 (5th Cir. 1994)). The court noted that Bourne had submitted facts which it contended supported limiting the meaning of "motion pictures" to celluloid film, and that Disney had offered evidence to the contrary. Given the facts in the record that supported Disney's position (including evidence that during the 1930s, home viewing of motion pictures already existed and non-celluloid methods of storing motion pictures were already under development, as well as evidence that Congress did not intend the Copyright Act's use of the term "motion picture" to be limited to celluloid film, Pet. App. 19a-20a), the court held that there was sufficient evidence to support the jury's conclusion that videocassette rights were granted. The Second Circuit emphasized that the decision was made by the jury, not by any court:

> [W]e believe that the district court properly submitted to the jury the question of whether the 1933 Shorts Agreement and the 1939 Pinocchio Agreement provided Disney with the right to synchronize the Compositions to videocassettes containing its motion pictures.

Pet. App. 20a-21a. Thus, the jury alone held that the 1930s agreements licensed Disney to record the songs on videocassette.

B. The Second Circuit's Analysis Is Entirely Consistent with That Applied by Other Courts

To support its Petition, Bourne argues that the Second Circuit's ruling "creates widespread confusion by establishing a rule of construction contrary to that of other Circuits and prior Second Circuit precedent with regard to the copyright rights to new technologies." Pet. at 6. Bourne claims that other courts have decreed that a licensee can obtain rights to new technology *only* if the license agreement expressly so provides. Unfortunately for Bourne, the cases do not support any such rule.

Bourne first cites this Court's decision in *Manners v. Morosco*, 252 U.S. 317, 325-26 (1920), arguing that the case held that where a license does not expressly state that the licensee holds rights to future technology, those rights necessarily belong to the licensor. Pet. at 13. But the case held no such thing.

The question in *Manners* was whether an agreement granting "the sole and exclusive license and liberty to produce, perform and represent the said play [*Peg O' My Heart*] in the United States of America and the Dominion of Canada" also conveyed silent movie rights in the play. The Court analyzed the agreement's terms to decide whether the scope of the license could be determined as a matter of law. The Court stated:

> It may be assumed that those words might carry the right to represent the play in moving pictures *if the other terms pointed that way, but to our mind they are inconsistent with any such intent*.

252 U.S. at 326 (emphasis added). Based on a litany of contractual provisions that were inconsistent with a grant of film rights,[4] the Court held that "a representation by spoken drama alone is provided for." *Id.* Thus, *Manners* does not create any broad presumption against the transfer of rights in future technologies. Quite the opposite: the case instructs that each dispute is unique, to be determined on its specific facts.

Manners and the other cases cited by Bourne do, however, apply a common mode of analysis -- which is fully consistent with the Second Circuit's approach here. In each case, the court first addresses whether, in light of the contractual language at issue, any ambiguity exists. If the contract is ambiguous, it must then be determined whether the language of the agreement is broad enough to encompass the particular new use. In *Manners*, the second step of the analysis was simply unnecessary because the agreement was unambiguous; the terms were uniformly inconsistent with a transfer of silent movie rights.

Each of the other authorities relied upon by Bourne likewise focused upon the specific contractual language at issue. In *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150 (2d Cir.), *cert. denied*, 393 U.S. 826 (1968), the Second Circuit held that an assignment of "the motion picture rights

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[4] The Court based its conclusion on the facts that, under the license, the play was to be performed a specified number of times, in particular theatrical seasons; the contract's royalty scheme was adapted only to the mode of stage presentation; the play was to be performed only in a particular category of theaters, by particular types of companies, with the author's wife in the title role; no alterations, eliminations or additions were to be made without the author's consent; and rehearsals and productions of the play were to be under the author's direction. *Id.*

throughout the world" was broad enough to include television, notwithstanding that television was not available in 1930, when the agreement was signed. In *Bartsch*, as here, the contract contained a broad grant that was not limited by other terms of the agreement. Thus, the *Bartsch* court distinguished *Manners* as a case "in which an all encompassing grant found in one provision must be limited by the context created by other terms of the agreement indicating that the use of the copyrighted material in only one medium was contemplated." 391 F.2d at 154.

According to *Bartsch*, where, as here, a grant of motion picture rights is not expressly limited by other terms of a license agreement, the pivotal question becomes whether the grant is sufficiently broad to incorporate future uses "'which may reasonably be said to fall within the medium.'" *Id.* at 155 (citing Professor Nimmer). Although the Second Circuit did not cite *Bartsch* by name, its analysis -- considering whether the 1930s agreements were reasonably broad enough that the jury could have found they encompassed videocassettes within the term "motion pictures" -- derives almost word-for-word from *Bartsch*. *Compare* Pet. App. 20a *with* 391 F.2d at 155.[5]

Bourne next seeks to rely on the Ninth Circuit's decision in *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851 (9th Cir. 1988). The court there held that an agreement conferring the limited right to exhibit a film "by means of television" did not include the right to distribute

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[5] Even if the Second Circuit's decision in the present case were inconsistent with its prior ruling in *Bartsch* -- which it plainly is not -- that would not be a basis for a grant of certiorari. *See* Sup. Ct. R. 10(a).

videocassettes of the film -- a result perfectly consistent with the facts and analysis in *Bartsch* and in this case. Bourne also fails to mention a crucial distinguishing fact between *Cohen* and this case. There, the license expressly "reserved to the grantor 'all rights and uses in and to said musical composition, except those herein granted to the licensee . . . .'" *Id.* at 854. According to the Ninth Circuit, it was this specific reservation that "operates to preclude uses not then known to, or contemplated by the parties." *Id.* By contrast, the agreements in this case did not contain any provision reserving to Bourne all rights not expressly conveyed to Disney.

Thus, *Cohen* -- like *Manners* and *Bartsch* -- stands for, indeed highlights, the proposition that each case must be determined by examining the specific contractual language at issue. (In fact, the *Cohen* court declined to follow certain other decisions because they "involve[d] licenses that contain language markedly different from the language in the license at hand." *Id.* at 855.) The Second Circuit's analysis here and the analysis in *Cohen* are entirely consistent; it is simply the contracts that were different. Moreover, *Cohen* flatly contradicts Bourne's view that Disney could obtain rights to future technology only by an express grant of such rights. To the contrary, it supports the Second Circuit's holding that Bourne, as the grantor, bore the burden of expressly retaining any rights it did not want included in its broad grant.

Nor does Bourne receive any comfort from *Rey v. Lafferty*, 990 F.2d 1379 (1st Cir.), *cert. denied*, ___ U.S. ___, 114 S. Ct. 94 (1993), where the contractual grant of rights was specifically limited to "television viewing." The First Circuit emphasized that where contracting parties'

intentions regarding new technologies cannot be determined from contractual language, the "preferred" approach is to "presume that at least the possibility of nonspecific 'new uses' was foreseeable by the contracting parties at the time the license agreement was drafted." 990 F.2d at 1388 (citing *Bartsch*). The court further observed that it might be appropriate to reserve to the grantor rights not expressly conveyed only if "a particular 'new use' was *completely unforeseeable*." *Id.* (emphasis added). As the record recited by the Second Circuit shows, that is patently not the case here. The last thing that could be said is that alternative means of storing motion pictures and showing them in the home were "completely unforeseeable;" indeed, the Second Circuit cited specific evidence in the record to the contrary. Pet. App. 20a.

Finally, Bourne's reliance on *Bloom v. Hearst Entertainment, Inc.*, 33 F.3d 518 (5th Cir. 1994), is misplaced given that the court in *Bloom* expressly adopted the Second Circuit's analysis in *Bartsch*. *See* 33 F.3d at 525. In so doing, the *Bloom* court held that the term "motion-picture" was ambiguous as a matter of law, *id.* at 522, and further ruled that "a general grant of motion picture rights is potentially broad enough to contemplate the later use of video as a means of distribution," *id.* at 525.[6]

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[6] Bourne argues that the Second Circuit's citation of *Bloom* is erroneous, because -- according to Bourne -- videocassettes were plainly foreseeable in 1988, when the license at issue in *Bloom* was signed, but were not foreseeable in the 1930s. Pet. at 17-18. The Second Circuit did not rule that "motion picture" rights negotiated in the 1930s include videocassette technology *as a matter of law*. Rather, it cited specific evidence supporting the *jury's* conclusion that videocassette rights were encompassed in the grant in this case. Pet. App. 19a-20a.

In sum, Bourne can identify no error of law, because the Second Circuit made none. The court's analysis is fully consistent with the approach of other Circuits; Petitioner's unhappiness stems purely from the fact that it failed to convince the jury to accept its interpretation of the agreements. That unhappiness does not, we submit, justify certiorari review.

2. The Circuits Agree That Where Only the Scope of an Existing License Is at Issue, the Party Claiming Infringement Bears the Burden of Proof

Bourne next argues half-heartedly that the Second Circuit's decision impermissibly shifts the burden to the copyright holder to prove the absence of a grant of future technology. This argument, too, finds no support in the authorities.

As the Court of Appeals correctly observed (Pet. App. 21a), Bourne relies on cases where the issue was whether the alleged infringer had any license at all. *See, e.g., United States v. Larracuente*, 952 F.2d 672, 673-74 (2d Cir. 1992); *CMS Software Design Sys. v. Info Designs, Inc.*, 785 F.2d 1246, 1247 (5th Cir. 1986). That was not the issue here because the existence of the license agreements was never in doubt. The question was only whether Disney's use of the songs on videocassette fell within the licenses -- an issue on which Bourne plainly had the burden of proof.[7]

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[7] Bourne argues that "the existence and scope of the license are coextensive because the technology at issue was not invented at the time of the grant." Pet. at 19. But the license agreements plainly exist and the only issue in the case was their scope.

The lower courts' rulings that Bourne had the burden of proving that Disney's use was unauthorized by the existing licenses is supported by a unanimous body of authority. *See* 17 U.S.C. § 501(a); *Laureyssens v. Idea Group, Inc.*, 964 F.2d 131, 139 (2d Cir. 1992); *United States v. Cohen*, 946 F.2d 430, 434 (6th Cir. 1991); *Folio Impressions, Inc. v. Byer Cal.*, 937 F.2d 759, 763 (2d Cir. 1991); *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 (9th Cir. 1989).

Petitioner concludes by claiming that the Second Circuit's holding is wrong because, it argues, there is a general rule that "all rights not expressly granted are reserved by the copyright owner." Pet. at 19. However, putting aside whether any such rule exists, the plain fact is that Bourne misperceives the court's ruling in any event. The court in this case simply concluded that, because the terms of the agreements were reasonably broad enough to cover the new use, Bourne had the burden of proving that there was an exception to the broad grant. That ruling is entirely consistent with the authorities on which Bourne seeks to rely. *See Bartsch*, 391 F.2d at 155; *Rey*, 990 F.2d at 1388; *Cohen*, 845 F.2d at 854.

3. Under the First Sale Doctrine, Disney Was Entitled to Sell Its Lawfully-Made Videocassettes

Bourne continues to argue that despite the fact that Disney has the right to make videocassettes of motion pictures incorporating the songs, it does not have the right to sell or distribute those videocassettes. Bourne contends that the Second Circuit's rejection of that argument creates a conflict with other Circuits, warranting review by this Court.

Once again, Bourne is attempting to construct a conflict where none exists.

The 1930s agreements are governed by the formulation of the "first sale" doctrine in Section 27 of the 1909 Copyright Act:

> The copyright is distinct from the property in the material object copyrighted, and the sale or conveyance . . . of the material object shall not of itself constitute a transfer of the copyright . . . ; but nothing in this title shall be deemed to forbid, prevent, or restrict *the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.*

17 U.S.C. § 27 (1909 Act) (emphasis added).[8]

In other words, because Disney is lawfully entitled to synchronize the songs from "Snow White" and "Pinocchio" with its motion pictures in videocassette format (as the jury found), Disney is also entitled, under the first sale doctrine, to distribute copies of those videocassettes, whether by sale or rental. *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908); *Sebastian Int'l, Inc. v. Consumer Contracts (PTY) Ltd.*, 847 F.2d 1093, 1096 (3d Cir. 1988); *Blazon, Inc. v. DeLuxe Game Corp.*, 268 F. Supp. 416, 433-34

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[8] The analogous provision in the Copyright Act of 1976 appears at 17 U.S.C. § 109, which provides that, "[n]otwithstanding the [copyright owner's exclusive right to distribute copies granted by 17 U.S.C. § 106(3)], the owner of a particular copy or phonorecord lawfully made . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."

(S.D.N.Y. 1965); *Royal v. Radio Corp. of America*, 107 U.S.P.Q. 173 (S.D.N.Y. 1955); 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright*, § 10.10[C] (1993). This conclusion is particularly appropriate given that Disney, not Bourne, unquestionably owns both the videocassettes and the movies contained within those videocassettes.

Faced with this hornbook law, Bourne proceeds to take considerable liberties with the authorities. For example, Bourne cites this Court's decision in *Bobbs-Merrill* for the proposition that "the copyright holder must first dispose of physical possession of a particular copy by transfer of ownership in order for the first sale doctrine to apply." Pet. at 8. That decision -- which Bourne did not even think relevant enough to mention to the Second Circuit -- does not begin to stand for the proposition Bourne claims.

The specific issue in *Bobbs-Merrill* was whether the statutory right to vend gives a copyright owner the right, after the sale of the copyrighted text, to fix the price of future retail sales of the book. *See* 210 U.S. at 350. The Court simply held that, absent a contractual restriction on the terms of re-sale, the first sale divested the copyright holder of any right to control subsequent sales. *Id.* That decision established the analytical framework which courts -- including the Second Circuit in the present case -- have applied consistently to the particular circumstances presented.

The cases cited by Bourne demonstrate that the first sale doctrine was correctly applied in the present case. Thus, for example, in *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 851 (2d Cir. 1963), the Second Circuit identified the issue as

> whether an unpaid manufacturer of copyrighted goods, which are alleged to be defective by the copyright proprietor . . . may sell them in satisfaction of his claim for the contract price without infringing the "exclusive right" of the proprietor to "publish . . . and vend the copyrighted work . . . ."

315 F.2d at 849. The court answered that question by holding that lawful *possession* of someone else's property (as opposed to ownership of the property) did not give one the right to sell it. In other words, under the specific contractual relationship in that case, the parties never contemplated that the defendant could sell the copyrighted materials. That is totally different from here, where Disney plainly owned the videocassettes and the right to dispose of them.

In *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 103 (9th Cir.), *cert. denied*, 364 U.S. 882 (1960), Paramount licensed Kodascope to make reproductions of Paramount's silent movies for "non-theatrical exhibitions" "and to license the use thereof," but Paramount retained ownership. Despite this, Kodascope proceeded to sell copies of the films to Hampton, who showed them theatrically. On appeal, the Ninth Circuit rejected the claim that Paramount had given up the right to control its movies, pointing out that under the express language of the license:

> [T]he things Kodascope was licensed to do were to make reproductions of the photoplays "and to license the use thereof * * *," thereby precluding a construction that Paramount gave Kodascope the right to sell such reproductions.

279 F.2d at 103. In other words, the contract could not be construed to permit Kodascope to *sell* its lawfully-made copies, because Paramount had expressly limited Kodascope to only *license* those copies.

Similarly, in *United States v. Wise*, 550 F.2d 1180 (9th Cir.), *cert. denied*, 434 U.S. 929 (1977), where the defendant claimed that Universal had made a "first sale," the court rejected that claim as inconsistent with the terms of the license agreements. As the court noted, those agreements "all purported to transfer only limited rights for the exhibition or distribution of the films for a limited purpose and for a limited period of time"; "[t]he agreements reserved title to the film prints in Universal, and required their return to Universal following the expiration of the contract term"; and most of the contracts "prohibited the licensee or any other party from copying or duplicating any film prints." *Id.* at 1190. Based on these facts, which are markedly different from those in the present case, the Ninth Circuit concluded that there was no "first sale," and the defendant had no right to sell Universal's motion pictures. *Id.*[9]

As the cases cited above establish, the courts will not find a "first sale" when specific contractual terms and the parties' conduct clearly establish that the defendant had no

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[9] Bourne also relies on several cases where the plaintiff copyright holder concededly had no right to restrict the defendant's distribution of the copyrighted work, but instead attacked the defendant's public performance of the work. *See, e.g., Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275, 280 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990); *Columbia Pictures Indus. v. Redd Horne, Inc.*, 749 F.2d 154, 159-60 (3d Cir. 1984). Those cases are plainly irrelevant here, where Bourne concedes that Disney has the right of public performance but challenges Disney's right to distribute copies.

right to sell copies of the copyrighted work. Similarly, the cases teach that it would be equally wrong to find that a "first sale" had *not* occurred where, as here, the copyright holder gave the licensee a very broad right to make copies and imposed no restrictions prohibiting the licensee from selling those copies. The Second Circuit's decision affirming the jury's verdict that Bourne "g[a]ve Disney the right to use" the music on videocassette simply adopted that logic. To argue otherwise is to claim that Disney would have only the right to make the videocassettes -- which it would then be compelled to store and hold forever. As the court observed, that would make no sense. Pet. App. 26a.[10]

Given that Bourne's argument is totally at odds with the jury's verdict, Bourne does the only thing it can -- it ignores the jury's findings completely. Thus, Bourne's "first sale" argument relies on the proposition that the 1930s agreements gave Disney the rights to record and publicly perform the songs only "in one medium (public theatrical film exhibition)." Pet. at 2; *see id.* at 11.[11] However, to

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[10] Also, as Professor Nimmer has stated, "in order to permit the full enjoyment of a right expressly granted there is a necessary implication that certain collateral rights have also been granted." 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright*, § 10.10[C] (1993) (citing *Royal v. Radio Corp. of America*, 107 U.S.P.Q. 173 (S.D.N.Y. 1955)).

[11] Bourne's argument that the agreements conveyed a license to record the songs only on celluloid film motion pictures to be exhibited in theaters is contradicted by the express language of the agreements. For example, the 1939 "Pinocchio" agreement gave Disney

(continued...)

make that claim, Bourne must pretend the jury never found that Bourne's broad grant of the right to record the songs in "motion pictures" included the right to put them on videocassettes. But the jury did make that finding, and that, we submit, is the fatal flaw in Bourne's argument.[12]

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[11](...continued)

> the non-exclusive right to mechanically and/or electrically record the said musical compositions . . . in synchronism with any and all of the motion pictures which may be made by [Disney] and the right to export such recordings to all of the countries of the world, *and* the right to give public performances of such recordings in connection with the exhibition of the motion pictures with which said recordings were synchronized.

Pet. App. 99a (emphasis added). Thus, the right of public exhibition is expressly separate and distinct from the right to record.

[12] The Second Circuit's decision finds further support from *Platt & Munk*. As that case held, the possessor of a lawfully-made copy is permitted to resell that copy if "there has been such a disposition of the article that it may fairly be said that the patentee [or copyright proprietor] has received his reward for the use of the article." 315 F.2d at 854 (quoting *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942)). Since Disney, not Bourne, created the songs; Disney, not Bourne, turned the songs into classics that will survive into the next century; and, because of Disney's efforts, Bourne itself has received and continues to earn substantial revenues from the songs, Bourne has unquestionably already "received [its] reward for the use of the article." *See* Pet. App. 25a-26a.

4. Bourne's Claim That Review Is Needed to Protect the Public Interest Is Baseless

Bourne concludes with two sweeping, desperate "public policy" pronouncements: first, the Second Circuit's decision throws thousands of motion picture licenses into question by disrupting settled federal law; and second, if this Court does not grant review, "the original authors" and their heirs will be deprived of "the benefits of copyright ownership and the fruits of their labors, to the detriment of the constitutional purpose of furthering the progress of the arts and sciences." Pet. at 20.[13] Bourne's professed concerns are unfounded.[14]

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[13] Disney vigorously disputes Bourne's contention, Pet. at 1, that the constitutional provision underlying the copyright and patent laws is implicated by this proceeding.

[14] These arguments were also advocated below by the National Music Publishers' Association ("NMPA"), a trade association, and by the heirs of the person who wrote the music for the songs in "Pinocchio" (collectively, "Adams"). NMPA and Adams both filed *amici curiae* briefs and both intend to seek leave to file similar briefs in this Court. Disney informed Adams and NMPA that it would consent to their filings if they would only provide copies of their briefs so that Disney could incorporate its response in this opposition. Adams agreed to do so but failed; NMPA refused. In any event, assuming the arguments are the same as those made below, these *amici* will not bring to the attention of the Court any relevant matter not already covered by the parties. *See* Sup. Ct. R. 37.1.

Unquestionably, this case is important to the parties. But the Second Circuit's decision will have no discernible effect on the rights and relationships of others, unless they happen to have written songs for their motion pictures and entered into contracts in precisely the manner done by the parties here. That is highly unlikely, to say the least.

Bourne and the NMPA urge that the decision below will somehow affect the licensing efforts and practices of music publishers generally, particularly with regard to new technologies and the "information superhighway." *See* Pet. at 21-22.[15] Thus, they would have this Court believe that every song in which any music publisher has an interest involves the same unique facts, circumstances, contractual arrangement, and sixty-year course of conduct present in this case. Obviously, that is not true. The determination of each of the key issues in this case -- the ambiguous nature of the agreements and the right to distribute lawfully-made videocassettes -- was based upon the precise facts presented. The thousands of licensors and licensees described by Bourne need not lose a moment's sleep; their rights -- which are determined by the specific language of their contracts, and the unique facts of their own contractual relationships -- are undisturbed by the Second Circuit's ruling in this case.

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[15] Indeed, Bourne's Petition quotes at length from NMPA's *amicus curiae* brief in the Second Circuit. *See* Pet. at 21-22.

Finally, pulling out all the stops, Bourne claims that it is seeking to protect the original authors of the songs and their heirs, such as Adams. But Bourne's and Adams' argument has no merit. They seem to forget that *Disney* (through its employees) is the original author of the songs. The songs at issue were classic works for hire. Disney employees created those songs as part of their job, and the copyrights (prior to their transfer to Berlin) were unquestionably owned by Disney, not the employees. Although it had no legal obligation to do so, Disney has given the songwriters a percentage of the revenues from the songs, which their heirs continue to receive. Because Disney is the original author, and because the jury found that the parties intended Disney to have the right to use its songs in all of its motion pictures, regardless of the particular format, the original authors' rights are fully protected.

Conclusion

When all of the rhetoric is stripped away, Bourne's Petition really boils down to a single proposition: that the trial court erred in allowing the jury to decide whether the license agreements permitted Disney to record the songs on videocassette. Stated somewhat differently, Bourne is really claiming that the contracts in this case could mean only one thing -- what Bourne asserts -- and nothing else. The courts below correctly rejected that contention and, we submit, the Petition for a writ of certiorari to review those decisions should likewise be rejected.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

BEEBE BOURNE, d/b/a BOURNE CO.,

Petitioner,

—v.—

THE WALT DISNEY COMPANY and BUENA VISTA HOME VIDEO,

Respondents,

TOWER RECORDS, INC., BARNES & NOBLE BOOKSTORES, INC., BLOCKBUSTER ENTERTAINMENT CORP., RKO WARNER VIDEO, INC. and JOHN DOES 1 THROUGH 100,

Defendants.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

MOTION FOR LEAVE TO FILE BRIEF *AMICUS CURIAE* AND BRIEF *AMICUS CURIAE* OF NATIONAL MUSIC PUBLISHERS' ASSOCIATION, INC. IN SUPPORT OF PETITIONER

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MOTION FOR LEAVE TO FILE BRIEF *AMICUS CURIAE* OF NATIONAL MUSIC PUBLISHERS' ASSOCIATION, INC. IN SUPPORT OF PETITIONER

National Music Publishers' Association, Inc. ("NMPA") hereby moves, pursuant to Rule 37.2, for leave to file a brief *amicus curiae* in support of Beebe Bourne, d/b/a Bourne Co.'s petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit. Petitioner has consented to

the filing of this brief, but respondent has declined to consent. A copy of the proposed brief is attached.[1]

As more fully explained in the "Interest of *Amicus Curiae*" section of the attached brief at 1-4, NMPA is the principal trade association of music publishers. Its members own and administer more than 60% of the musical compositions copyrighted in the United States. NMPA's wholly-owned subsidiary, The Harry Fox Agency, Inc., serves as a licensing and collection agency for more than 14,000 music publisher principals.

This case is of vital interest to NMPA and all music publishers. Issues presented in the petition lie at the very foundation of licensing efforts and practices of music publishers with respect to the use of their musical compositions. The Second Circuit's resolution of such issues is likely to have a profound effect upon the use of existing derivative works (utilizing such musical compositions) in those new uses and future uses that have been and will be spawned by the explosion of new technologies—the so-called "information superhighway" being one example.

NMPA, together with the music publishers it represents, has a critical interest in supporting the petitioner in seeking reversal of the Second Circuit's rulings which a) expand otherwise limited grants of license rights by erroneously implicating the "first sale doctrine," now codified in Section 109 of the United States Copyright Act, 17 U.S.C. § 109, and b) permit the construction of limited, specific grants of license rights to include uses via technology that did not exist at the time of such grants and was not a part of the bargain between such grantor/licensor and its grantee/licensee.

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[1] NMPA filed an *amicus curiae* brief in the Second Circuit, which granted NMPA's motion for leave to file, after NMPA received consent from Bourne and a refusal to consent from Disney.

For the foregoing reasons, NMPA respectfully requests that the Court grant leave to file the attached brief *amicus curiae* in support of Bourne's petition.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

No. 95-1593

BEEBE BOURNE, d/b/a BOURNE CO.,

Petitioner,

—v.—

THE WALT DISNEY COMPANY
and BUENA VISTA HOME VIDEO,

Respondents,

TOWER RECORDS, INC., BARNES & NOBLE BOOKSTORES, INC., BLOCKBUSTER ENTERTAINMENT CORP., RKO WARNER VIDEO, INC. and JOHN DOES 1 THROUGH 100,

Defendants.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF *AMICUS CURIAE* OF NATIONAL MUSIC PUBLISHERS' ASSOCIATION, INC. IN SUPPORT OF PETITIONER

INTEREST OF *AMICUS CURIAE*

National Music Publishers' Association, Inc. ("NMPA"), founded in 1917, is the principal trade association representing music publishers in the United States. The over 600

music publisher members of NMPA own the copyrights in musical compositions under grants from their creators, the authors and composers, and also administer additional copyrights owned by their creators. These members, and their subsidiaries and affiliates, own or administer at least sixty percent (60%) of the musical compositions copyrighted in the United States. In addition, in 1927, NMPA established The Harry Fox Agency, Inc. ("HFA"), a wholly-owned subsidiary of NMPA, which provides licensing and collection services to over 15,000 music publisher principals.

NMPA members and publisher principals of HFA are involved in all phases of the promotion and exploitation of copyrighted songs, including discovery of new songwriters, active encouragement and adaptation of musical compositions, and promotion and negotiation of licenses with record companies, videogram manufacturers and other users. Music publishers are thus a vital force in the exploitation of the copyrights of musical compositions not only for their own benefit, but for the benefit of the songwriters whose copyrighted compositions they promote. As such, the publishers are an integral part of the creative process which the copyright laws seek to foster.

On a daily basis, NMPA and HFA publishers negotiate and enter into exclusive and non-exclusive licenses permitting many different uses of musical compositions—in phonorecords, motion pictures, videograms, print media and in the new fields of use spawned by the explosion of new technologies, such as CD-ROM and on-line computer services.

The Second Circuit decision—and the conflicts with decisions of other circuits it creates—profoundly harms the interests of music publishers, and copyright owners and creators generally, in two areas. First, the decision impacts the exploitation of copyrighted works in presently existing technology—in particular, videogram copies (e.g. videocassettes and videodiscs) derived from motion picture films embody-

ing synchronized recordings of musical compositions. Second, the rulings will affect the uses of musical compositions in newer technologies under development in today's digital age and in the future. Many future technologies are difficult if not impossible to contemplate now, let alone many decades ago, when many licenses—such as the ones from Bourne to Disney—were consummated.

The Second Circuit's holdings threaten music publishers' existing markets for videogram rights in their songs and markets to be developed for uses by way of future technological advances.[1] Contrary to rulings in other circuits, by erroneously implicating the first sale doctrine of the Copyright Act, 17 U.S.C. § 109, the Second Circuit has effectively expanded grants of limited rights to include additional rights not encompassed within such licenses. The opinion below also allows the expansion of such grants to embrace technologies not existing at the time of, or otherwise contemplated in, such licenses by permitting a 1993 jury to construe unambiguous license provisions from the 1930s.

The resultant uncertainty potentially threatens untold millions of dollars that publishers and their songwriter partners would otherwise be entitled to as their legitimate rewards for their creative efforts. The decision could also touch off a race to the courthouse, as music users head for the Second Circuit to seek declaratory judgments that their uses in new technology are permitted, and the publishers run to other circuits, like the Ninth Circuit, seeking interpretation of the Copyright Act and license grants more in keeping with previously accepted precedent and the decades-old expectations of publishers and their licensees.

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[1] The positions stated herein on behalf of music publishers also apply to all others in the copyright community, who likewise have a vital stake in the issues presented in the petition. Vigorous markets for copyrights exist for, and analogous licensing activities are engaged in by, the book publishing, motion picture, television, theater and other industries which deal in and with copyrighted works.

Since its founding, NMPA (and its predecessor organization) has been the primary industry spokesperson for the common interests of music publishers in a variety of legislative, legal, educational and public relations activities. NMPA represented its members in meetings convened by the Copyright Office and Congress in the effort to effect a comprehensive revision of the United States Copyright statute which culminated in the 1976 Act and has actively participated in subsequent proposed and implemented revisions of the Copyright Act. Most recently, NMPA played a significant role in the drafting and passage of the Digital Performance Right in Sound Recordings Act of 1995, governing the use of musical compositions in new digital media. Having a sound knowledge of and participation in the music publishing business from the early part of the century, and having repeatedly confronted and been involved in the adaptation of industry practice and copyright law to the ever-changing technological landscape, NMPA is particularly well-suited to assist the Court with the issues presented by this case.

ARGUMENT

I.

THE SECOND CIRCUIT'S DECISION CONFLICTS WITH PRECEDENT FROM OTHER CIRCUITS BY IMPROPERLY APPLYING THE FIRST *SALE* DOCTRINE TO LIMITED, *NON-EXCLUSIVE LICENSES*.

A. The First Sale Doctrine Implicates Critical Exclusive Rights Provided by the U.S. Copyright Act.

The music publishing industry relies for its lifeblood on two critical—and *separate*—rights provided by the Copyright Act: the right to *reproduce* a copyrighted work in copies or phonorecords, 17 U.S.C. § 106(1), and the right to *distribute* copies or phonorecords to the public by *sale or other trans-*

fer of ownership, or by rental, lease or lending, 17 U.S.C. § 106(3) (emphasis supplied). These rights embodied in the so-called "1976 Act" represent the modern codification of the rights to "copy" and "vend" copyrighted works provided in the Copyright Act of 1909. 17 U.S.C. § 1(a) (1947).

These rights comprise the foundation of a vigorous market and active licensing practices for the use of songs owned by music publishers. As reflected in NMPA's most recent international music publishing survey[2], the international music publishing industry posted revenues of $5.03 billion in 1993. Approximately 22% of such revenues, or $1.1 billion, were earned in the United States.[3] Of such U.S. revenues, 38% were generated under licenses which granted rights to reproduce musical works.

As new technologies have emerged over the years enabling the production of new configurations of music-bearing works (such as compact discs and videocassettes) and their use in newly developed devices (such as VCRs), the form and substance of licenses granting the rights to use songs in such music-bearing works have evolved to meet the changes. Indeed, when videogram technology first was developed in the 1970s, a process commenced in which license forms utilized in the music industry for the use of songs in synchronization with motion pictures ("synch licenses") were broadened to include provisions therein for the *making* of videogram copies and for the *distribution* of such videogram copies to the public for home use. Where earlier synch licenses did not contain express grants capable of embracing such new technologies (e.g., "for use in any form or medium, or technology hereafter to be developed and in any manner, now or hereafter devised" or words to such effect), the parties

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[2] National Music Publishers' Association, Inc., *International Survey of Music Publishing Revenues* (1995).

[3] Typically, revenues received by music publishers are shared equally between music publishers and authors under operating agreements between them.

to such licenses bargained for and entered into new licenses which permitted both the *making* and the *distribution* of videogram copies. *See, e.g., Rooney v. Columbia Pictures Industries, Inc.*, 538 F. Supp. 211 (S.D.N.Y.), *aff'd*, 714 F.2d 117 (2d Cir. 1982), *cert. denied*, 460 U.S. 1084 (1983); *Platinum Record Co. v. Lucasfilm, Inc.*, 566 F. Supp. 226 (S.D.N.Y. 1983).

The Second Circuit's erroneous implication of the first sale doctrine provided in Section 109 greatly threatens music publishers' ability to enter new markets, such as home videotape, and take advantage of new licensing opportunities.

B. The Second Circuit's Opinion Contradicts Established Precedent Which Requires a *Transfer* of a *Particular Copy* Before the First Sale Doctrine Can Apply.

The first sale doctrine (erroneously relied on by the Second Circuit for expansion of license grants) is now set forth in Section 109 of the United States Copyright Act[4] and provides in pertinent part:

> Limitations on exclusive rights: Effect of *transfer* of *particular* copy or phonorecord
>
> a) Notwithstanding the provisions of Section 106(3), the owner of *a particular copy* or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, *to sell* or otherwise dispose of the possession of *that copy* or phonorecord.

17 U.S.C. § 109(a) (emphasis supplied).

The Second Circuit failed in its cursory attempt to distinguish its opinion in *Platt & Munk Co. v. Republic Graphics,*

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[4] Since this case involves 1930s copyrights, the applicable formulation of the first-sale doctrine is actually that appearing at 17 U.S.C. § 27 (1947), which was restated in 17 U.S.C. § 109.

Inc., 315 F.2d 847 (2d Cir. 1963), ignoring *Platt & Munk*'s repetition of the requirement that lawful ownership must be obtained by *transfer*, such as sale, of the physical object in return for a satisfactory price. The Second Circuit also opined that Bourne has received its "reward" for Disney's sale of videocassettes. The Second Circuit's summary rejection of what music publishers have regarded as a well-established interpretation (and limitation) of the doctrine is alarming to the music publishing community and brings with it previously unforeseen consequences.

Both portions of the Second Circuit's analysis are fatally flawed. First, there was no *transfer* of a physical videocassette from Bourne to Disney; section 109 specifically recognizes that the first sale doctrine requires a "*transfer* of a *particular copy*. . ." 17 U.S.C. § 109. In this case, Disney manufactured the videocassettes itself. Even assuming such manufacture had been authorized, Disney cannot avail itself of the first sale doctrine since the videocassettes came into Disney's possession by virtue of Disney's own manufacture of the videocassettes, not from a transfer by Bourne. *See* cases cited in petition at 8-9. This error is the most critical one made by the Second Circuit, which was unable to cite any authority for the proposition that the first sale doctrine's protection may be invoked by a party who actually manufactured the copy or phonorecord at issue. The doctrine's history, as borne out by the legislative history and judicial precedent, makes crystal clear that a party may only invoke the doctrine after *receiving* a lawfully made tangible copy or phonorecord from another party, *not* by first manufacturing the copy or phonorecord itself.

Moreover, Bourne cannot be said to have received its reward for use of the videocassettes, as the Second Circuit held. First, Bourne never had possession or use of the videocassettes, which possession or use is an implicit requisite in the "reward" analysis. Further, Bourne did not grant Disney the right to "exploit" the works, but merely to exhibit the

relevant motion pictures in theaters. Thus, the only reward Bourne received was in connection with film exhibition, not videocassette use.

In addition, the Second Circuit's fear of leaving Disney with a license to produce, but not sell, videotapes wholly ignores the substance of the licenses at issue. The Second Circuit's ruling that "motion pictures" could include videotapes was based on evidence that a videotape was merely another method of storing a motion picture. If so, Disney's use of such videotapes should be limited to only the uses permitted by the 1930s licenses, which indisputably did not contain the right to vend. Accepting the Court's interpretation of the license grant of "motion picture" rights, Disney would still be free to arrange for the exhibition of a videotape copy of, say, *Snow White* in a theater, but not to sell such videotapes for home use. Thus, Disney does not need a vending right in order to receive the full benefit of the licenses.

The concept of selling vast quantities of videocassettes for consumers' personal, in-home use, and the broad market therefor, came about decades after the agreements at issue. The Second Circuit is not free simply to change the licenses to conform to today's market conditions, without further compensation to Bourne. It would seem that the Second Circuit has chosen to rewrite the first sale doctrine, an activity reserved for Congress. As this Court pronounced at the beginning of the videotape explosion, "[s]ound policy, as well as history, supports our consistent deference to Congress when major technological changes alter the market for copyrighted materials." *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984).

The Second Circuit's disturbing reformulation of the first sale doctrine effectively eviscerates the "vending" or distribution right, as currently embodied in 17 U.S.C. § 106(3).

Music publishers, as well as other copyright owners, have relied for years (since at least the time of this Court's ruling

in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908)) on the well-established parameters of the first sale doctrine—in particular, the absolute, unequivocal prerequisite of a "sale" or other *transfer*. The Second Circuit's decision upsets the certainty on which music publishers have relied in their licenses of reproduction rights, particularly of motion pictures, and throws a major degree of uncertainty into copyright jurisprudence. As this Court recently taught, such uncertainty as to the interpretation of an important part of the copyright law is unacceptable:

> Because copyright ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible.

Fogerty v. Fantasy, Inc., ___ U.S. ___, ___, 114 S. Ct. 1023, 1030 (1994).

That uncertainty could well open the floodgates to litigation, touching off numerous races to the courthouse. With the Second Circuit turning its back on its prior formulation in *Platt & Munk*, copyright users, such as Disney, who are only licensed to *reproduce* works will be more likely to commence actions there for declarations that they also be permitted to *sell* videotapes and other derivative works they manufacture. Music publishers, on the other hand, will set off for circuits which have remained true to the first sale doctrine's historic contours.

The uncertainty and conflict resulting from the Second Circuit decision on this recurring issue independently warrant this Court's review of this case.

II.

THE SECOND CIRCUIT MISTAKENLY PERMITTED A JURY TO CONSTRUE UNAMBIGUOUS LICENSE GRANTS TO INCLUDE RIGHTS UNKNOWN AND UNCONTEMPLATED AT THE TIME OF SUCH GRANTS.

The Second Circuit improperly affirmed the jury's interpretation of the agreements in a manner totally contrary to law. Both the process of giving the contracts to the jury and the resultant misinterpretation would prove devastating to copyright owners if not reviewed and overturned by this Court.

A clear and unambiguous contract must be interpreted by the court (never a jury) according to the plain, ordinary and common meaning of the terms therein. *CCG Assocs. I v. Riverside Assocs.*, 157 A.D.2d 435, 440, 556 N.Y.S.2d 859, 861 (1990). A review of the plain meaning of the language of these agreements at the time they were entered into unambiguously demonstrates the utter lack of any grant of videogram rights.

The Second Circuit's reliance on a definition of "motion pictures" which appeared in 1971 proves utterly worthless to the interpretation of agreements bargained for over thirty years earlier. Focusing on the parties' intent at the time of contracting, it is beyond dispute that the term "motion pictures" in 1933 and 1939 referred only to negatives and positive film prints thereof depicting a series of images. *See Metro-Goldwyn-Mayer Distrib. Corp. v. Bijou Theatre Co.*, 3 F. Supp. 66 (D. Mass. 1933). In fact, in the 1930s, the terms "motion pictures" and "films" were essentially synonymous. *Metro-Goldwyn-Mayer Distrib. Corp. v. Bijou Theatre Co.*, 59 F.2d 70 (1st Cir. 1932) ("Prints of the *pictures or films as they are called* are not produced for sale.") (emphasis supplied). More importantly, copies of these motion pictures were rarely sold; rather, the producer would license the film to theaters

and other exhibitors for a short period of time.[5] *Id.* After that brief period, the print would be shipped to another exhibitor, who would similarly license and exhibit the film for a specified period of time. *Id.* Since the motion picture producer retained title to all copies, the producer (or its exclusive agent) exercised a great deal of control over the exhibition of each copy. This method of income producing is all that was entailed with a grant of rights to synchronize music with a motion picture in the 1930s, *id.*, and accordingly all that Disney and Bourne could have intended and bargained for.[6]

An understanding of this background is crucial to understanding the parties' intent in the context of subsequent case law. Since the 19th century, courts have confronted similar questions of the effect of license grants under copyright on uses through new technology. One relatively recent decision which has had a major, positive impact on the relationship between music publishers and movie producers is *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 853 (9th Cir. 1988). The *Cohen* court was called upon to interpret a grant of rights which permitted the motion picture producer to perform the musical composition at issue in connection with the exhibition of the motion picture in theaters and by means of television.

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[5] Since it was essentially their sole source of revenue, motion picture producers were vigilant in enforcing the time periods of the licenses. *See Metro-Goldwyn-Mayer Distrib. Corp. v. Bijou Theatre Co.*, 59 F.2d 70 (1st Cir. 1932) (suit for copyright infringement after exhibitor screened motion picture one day later than specified in license).

[6] The Second Circuit's reliance on the very limited home uses of Disney's short cartoons in the 1930s as paving the way for inclusion of videocassettes within the licenses is misplaced. These negligible in-home uses do not alter the main characteristics of a 1930s motion picture. More importantly, neither Disney nor the Second Circuit can dispute that the current market for sales of full-length, feature videocassettes did not exist until many decades after the agreements at issue were negotiated.

The Ninth Circuit in *Cohen* held that such a limited license could not encompass videocassette distribution—a process, underlying technology, and market which did not exist at the time of the 1969 contract. (Of course, such distribution did not exist in the 1930s, an undisputed fact the Second Circuit conveniently overlooked by its reference to limited home uses of short cartoons.) *Cohen*'s insightful analysis and comparison of television and videocassette uses is instructive as to the radical difference between 1990s videograms and 1930s motion pictures:

> Television requires an intermediary network, station or cable to send the television signals into consumers' homes. The menu of entertainment appearing on television is controlled entirely by the intermediary and, thus, the consumer's selection is limited to what is available on various channels. Moreover, equipped merely with a conventional television set, a consumer has no means of capturing any part of the television display; when the program is over it vanishes, and the consumer is powerless to replay it. Because they originate outside the home, television signals are ephemeral and beyond the viewer's grasp.
>
> Videocassettes, of course, allow viewing of a markedly different nature. Videocassette entertainment is controlled within the home, at the viewer's complete discretion. A consumer may view exactly what he or she wants (assuming availability in the marketplace) at whatever time he or she chooses. The viewer may even "fast forward" the tape so as to quickly pass over parts of the program he or she does not wish to view.

Id. at 853-54 (emphasis supplied). The Ninth Circuit then continued that "perhaps the primary reason" why the phrase "exhibition by means of television" could not encompass

videocassette distribution is that VCRs for home use were not known at the time the license was executed. Neither party could have known of the existence of videocassettes, and the original licensee could not have bargained or paid for rights associated with videocassette reproduction. *Id.* at 854.

This correct analysis is equally applicable to any unknown technology or means of distribution. As the Ninth Circuit explained, "The holder of the license should not now 'reap the entire windfall' associated with the new medium." *Id.* (citation omitted). Unfortunately, the Second Circuit's ruling would permit Disney to reap a tremendous and unprecedented windfall and encourage others to attempt to stretch limited licenses past their breaking point. In addition, such ruling would negatively impact opportunities for music publishers and others to bargain for and license newly developed uses of their copyrighted works.

Cohen's analysis has been specifically adopted by New York courts in *Tele-Pac, Inc. v. Grainger*, 168 A.D.2d 11, 570 N.Y.S.2d 521, *appeal dismissed*, 79 N.Y.2d 822, 580 N.Y.S.2d 201 (1991) and *General Mills, Inc. v. Filmtel Int'l Corp.*, 206 N.Y.L.J. 25 (Sup. Ct. Oct. 10, 1991), *aff'd*, 195 A.D.2d 251, 599 N.Y.S.2d 820 (1993), both of which extensively quoted *Cohen*'s analysis set forth above. *See Rey v. Lafferty*, 990 F.2d 1379, 1390 (1st Cir.), *cert. denied*, 114 S. Ct. 94 (1993) (television license did not include videocassette rights since license contained no general grant of rights in future technologies, following *Cohen*); *see also Kirke La Shelle Co. v. Paul Armstrong Co.*, 263 N.Y. 79, 188 N.E. 163 (1933) (term "motion picture rights" could not include right to produce "talkies" when such rights were not in contemplation of the parties since only silent films existed at time of 1918 contract).

The differences between films and videocassettes are patently obvious and similar to the differences between television and videocassette distribution rights explained in

Cohen. In fact, *Cohen*'s very language is easily adapted to the instant situation:

> By their very essence, then, videocassettes liberate viewers from the constraints otherwise inherent in television [and movies], and eliminate the involvement of an intermediary, such as a network [or a movie theater].

Cohen, 845 F.2d at 854. In other words, 1990s videograms and 1930s motion pictures differ in virtually every meaningful way. Therefore, such videocassette rights could not have been bargained for in the Agreements at issue. The notion of a motion picture film being converted to a new type of electromagnetic copy made for sale to a private individual for at-home viewing on newly developed devices could only be a notion that developed long after these contracts were executed. The parties negotiated for and agreed upon uses which were in existence in 1939 *only*. *There was no all-encompassing grant embracing later-developed technology and uses* which might have justified the result below, such as the grant which Disney negotiated in 1939 with respect to the film *Fantasia*. *See Muller v. Walt Disney Prods.*, 871 F. Supp. 678, 682-84 (S.D.N.Y. 1994) (contract governed motion pictures "produced and/or exhibited with or accompanied by . . . all other improvements and devices which are now or hereafter may be used. . ."). The Second Circuit erred by permitting a 1939 contract to be remade into a 1995 contract.

The Second Circuit's decision threatens to disrupt the means of doing business between music publishers and users. Music publishers have relied on the accumulating authority, which includes *Cohen*, *Tele-Pac* and *Rey*, to vindicate that which music publishers knew as a matter of logic and business instinct, i.e. that which did not exist could not be included in a limited license when compared with the extremely broad grant of rights given by Congress to copyright owners. The growing weight of this authority had not

been judicially contradicted until the Second Circuit's decision; the remaining cases which hold otherwise almost uniformly concern contracts in which unknown uses and devices were contemplated with a very broad grant of rights. *See, e.g., Muller*, 871 F. Supp. 678; *Platinum Record Co. v. Lucasfilm, Ltd.*, 566 F. Supp. 226 (D.N.J. 1983); *Rooney v. Columbia Pictures Indus., Inc.*, 538 F. Supp. 211 (S.D.N.Y.), *aff'd*, 714 F.2d 117 (2d Cir. 1982), *cert. denied*, 460 U.S. 1084 (1983). The absence of such a sweeping grant in which the parties specifically embrace unknown uses and devices must prevent the licenses at issue from encompassing unknown and uncontemplated technology and uses.

Overall, the Second Circuit was presented with two paths. The first, urged by NMPA and the petitioner, follows established Ninth Circuit precedent and affords further stability to the relationship between music publishers and copyright users based on sound legal reasoning. Instead, the Second Circuit chose the second path, grafting an unbargained-for videocassette right onto the limited license of rights at issue in an unprecedented manner and rendering an untold multitude of old licenses susceptible to uncontemplated, retroactive construction. The Second Circuit's choice has thrown the law on this issue into a terrible state of flux, inviting still more conflict and providing no guidance.

Music publishers and users have been perfectly capable of negotiating the sharing of the benefits of new technologies and uses to the advantage of all interested parties. It was not, nor should it be, a court's role to revise the business practices of an industry either directly or by permitting a jury to so do. Accordingly, as urged by petitioner, this Court should review the Second Circuit's rulings.

CONCLUSION

For all of the foregoing reasons, the petition for a writ of certiorari should be granted.

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Defendants.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

MOTION FOR LEAVE TO FILE BRIEF *AMICUS CURIAE* AND BRIEF *AMICUS CURIAE* OF KAREN ADAMS, GRETCHEN THOMAS ANDERSON AND THE NATIONAL WRITERS UNION IN SUPPORT OF PETITIONER

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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

MOTION OF KAREN ADAMS, GRETCHEN THOMAS ANDERSON AND THE NATIONAL WRITERS UNION FOR LEAVE TO FILE BRIEF *AMICUS CURIAE* IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI AND STATEMENT OF INTEREST

A. Karen Adams and Gretchen Thomas Anderson

Proposed amici curiæ Karen Adams and Gretchen Thomas Anderson are the daughters of the late Leigh Harline, who in the 1930s wrote the music for *Pinocchio*, the *Silly Symphonies*, and other famous songs and film scores for predecessor in interest of respondent Walt Disney Company ("Disney").[1] Mr. Harline is recognized by scholars, film critics and music historians as one of Hollywood's most influential and talented composers and a pioneer in the arts of song composition and film scoring. In 1940 Mr. Harline received academy awards from the Academy of Motion Picture Arts and Sciences for best song, "When You Wish Upon a Star," and for best score for the animated feature *Pinocchio*.

Although Disney's predecessor originally owned the copyrights to Harline's music because Harline was an employee for hire, Harline contemporaneously bargained for and obtained the right to share in various revenues from the exploitation of his music. The written agreement provided, *inter alia*, that Disney would share on a 50-50 basis with its songwriters revenues received "from its music publishers." Accordingly, the Harline heirs have shared in the royalties paid to Disney by petitioner Beebe Bourne d/b/a Bourne Co. ("Bourne"), Disney's music publisher, from Bourne's publishing and licensing of the copyrighted music to others, including Disney. However, Disney's refusal to obtain a license from and pay royalties to Bourne for the use and sale of Harline's music on subsequent video cassette recordings has deprived Harline's heirs of *any* share of the revenues from the *Pinocchio*, "Sing Along Songs" and "Simply Mad About the Mouse" videos.

The Second Circuit's use of the first sale doctrine to imply a right to sell individual copies of the music where none was concededly granted by the license, and its misapplication of

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[1] Mr. Harline also collaborated on the score and wrote much of the incidental music for *Snow White*.

the rules of interpretation of copyright licenses to find that the parties intended to license video rights to Disney back in the 1930s when video technology did not even remotely exist, have dispossessed the heirs of the creator of the music at issue of their rightful share of new revenues generated by video cassette technology, in contravention of both the intent of the parties, and the Copyright Act's constitutional mandate to benefit creators in order to further the progress of the useful arts and sciences. This decision not only creates a split in the circuits and fosters uncertainty and unpredictability in the licensing of music, literature, computer software, and other copyrightable subject matter, but also sets a dangerous precedent which severely penalizes all creators of copyrightable works. The Harline daughters respectfully move for leave to submit this brief to apprise the Court of the effect of the Second Circuit's decision upon the heirs of the creator of the music in question, and all composers, songwriters and authors similarly situated.

B. The National Writers Union

The National Writers Union ("NWU") is a labor union committed to protecting and advancing the economic rights of freelance authors in keeping with the purpose of the U.S. Copyright Act and relevant treaties. Founded in 1983, the NWU has 13 locals throughout the country and more than 4200 members who are journalists, book authors, technical writers and multimedia contributors. Its members include this country's most respected authors, all of whom make their living day after day by negotiating payment in exchange for certain rights to the works they create.

The members of the National Writers Union will be directly injured if the Second Circuit's decision in the instant case is not further addressed. It is a basic necessity of the freelance author's survival that he or she be able to license as many of the rights as possible that make up his or her copyrighted work. Rarely is payment rendered by a licensee adequate to

purchase all rights to an author's work and thus it is the tradition among authors that they negotiate each right separately, as is consistent with the divisibility of copyright. Of particular importance is the ability to ascertain the value of future rights before such rights are contemplated. NWU members must, on a daily basis, grapple with the sweeping definitions of database rights, CD-Rom rights, software adaptation rights and those rights not yet invented, and more times than not find themselves resisting flat fees offered by major publishers for all such rights. The Second circuit's decision threatens the already tenuous relationship between authors and licensees by handing licensees clear authority to profit repeatedly from a work with no additional responsibility to the author. The NWU urges the Court to review the Second Circuit's decision in keeping with the constitutional mission of protecting the livelihood of authorship.

C. Consent to File

Counsel of record obtained the consent of the petitioner, Bourne, to file this brief. Respondent Disney initially consented to the filing of this brief,[2] but only on the condition that they be furnished with a copy several days prior to the filing deadline. When counsel later informed Disney that due to time constraints it would not be possible to provide Disney with a sufficiently final draft by Disney's deadline, and requested unconditional consent, Disney refused to agree. Hence the necessity of this motion.

Based on the foregoing it is respectfully requested that the Court grant leave to file the attached brief of the Harline daughters and the National Writers Union as *amici curiae*.

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[2] At the time of the request, and subsequent refusal to consent, The National Writers Union had not yet joined in the proposed brief.

Respectfully submitted this 6th day
of May, 1996,

/s/ STEPHEN H. SULMEYER

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SUMMARY OF ARGUMENT

1. The Circuits Have Been, and Are Now Even More, Hopelessly Split on the Question of Interpretation of Copyright Licenses in New Technology Cases

Dating back to the advent of motion picture technology at the turn of the century, and continuing to the present day, the courts have been split on the question of how to interpret old copyright licenses in light of newly-discovered technologies. The decisions are divided into those which interpret grants narrowly, so as to require new bargaining for new uses, and those which interpret grants broadly, permitting the licensee to make use of the new technology without negotiating an additional license. The Second Circuit's decision adds to the split among the circuits, and compounds the problem by upsetting what had been a settled line of decisions with regard to video cassettes. The source of the split in the decisions, and the consequent unpredictability in business and litigation, lies in the insistence of the courts, including the Second Circuit, in torturing state laws of contract construction to "find" the "intent" of usually deceased parties with regard to a new technology which did not exist at the time the copyright license was entered into, and which therefore could not possibly have been within the contemplation of the parties.

2. Uniformity and Predictability Would Result if the Court Were to Clarify that Copyright Licenses Are to be Construed in a Manner Which Furthers the Policies and Purposes of the Copyright Law.

The Second Circuit's decision demonstrates that clarification is needed to ensure that copyright licenses are consistently interpreted, and state laws of contract construction uniformly applied, in light of the federal purposes of the copyright law. With the advancing pace of technological change and the advent of multimedia and the "Information Superhighway," this need is particularly acute. Because there is usually no "intent" to be "found" as an issue of fact, the

courts, in the exercise of their equitable powers, should presume that rights to an unforeseen technology remain with the copyright owner, and doubts should be resolved in favor of providing additional financial incentives to copyright owners, in keeping with the policies and purposes of the copyright law.

3. The Second Circuit's Failure to Interpret the Copyright License at Issue in Light of the Federal Policies and Purposes Underlying Copyright Law Resulted in Multiple Errors, Which Have Caused Substantial Harm to These Amici, and Will Harm Others Similarly Situated.

The Second Circuit misapplied the rules of copyright license construction and the first sale doctrine by placing inordinate weight upon its mistaken belief that "the Compositions at issue here were created by Disney." 68 F.3d at 632. Disney *originally owned the copyrights by operation of law as an employer for hire*—but it was never the *creator* of the music. Disney did *not* create the compositions. Amici's father did. By placing undue emphasis on the fact that Bourne obtained the copyrights from Disney, and mistakenly concluding from this fact that "[Bourne] has [already] received [its] reward," 68 F.3d at 632, the Second Circuit blinded itself to the broader implications of its decision for the vastly more common situation where the copyright owner/licensor obtained the copyrights from someone *other* than the non-exclusive licensee. As a matter of law, Disney is not entitled to preferential treatment simply because Bourne obtained the copyrights from Disney. Bourne obtained "all rights" in and to the music, including the copyrights, while Disney received only limited rights to use the music in its films and to publicly perform those films. Not only does the Second Circuit's decision set a dangerous precedent which allows judges to use the first sale doctrine to re-write copyright licenses, but by requiring the copyright owner to "unambiguously" reserve all rights to uninvented technologies, it

also dispossesses the heirs of the creator of the *music in question* of their right to benefit from the fruits of their father's creative labors. If the Second Circuit's decision is permitted to stand, authors, composers, software writers and others will lose a major incentive to create copyrightable works: the right to receive a share of revenues generated by new, unforeseen technologies—to the detriment of the public welfare and the progress of the useful arts and sciences.

I.

THE CIRCUITS HAVE BEEN, AND ARE NOW EVEN MORE, HOPELESSLY SPLIT ON THE QUESTION OF INTERPRETATION OF COPYRIGHT LICENSES IN NEW TECHNOLOGY CASES

A. Courts Are Split Between Broad and Narrow Constructions.

In order to understand the broader implications of the Second Circuit's decision—that a 1939 license of the right to synchronize music in "motion pictures" arguably included the right to copy the music onto and to sell video cassettes—this decision must be viewed in the wider context of so-called "new technology" cases. Since the advent of motion picture technology around the turn of the twentieth century, and continuing at an ever-increasing pace to the present day, courts have been faced with the question of whether rights in unforeseen, newly-invented technologies were granted along with the rights to already existing media.[1] Professor Nimmer has

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[1] Courts treat unknown, future technologies differently from existing media which are simply not mentioned in a copyright license. *E.g.*, *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150 (2d Cir.), *cert. denied*, 393 U.S. 826 (1968). In the case of existing but omitted technologies, the parties can reasonably be presumed to have considered the issue of the allocation of rights to the omitted medium. In the case of unforeseen media, however, no such presumption can reasonably be made. *See* P. Goldstein, COPYRIGHT § 4.6.3.2 at 4:107-108 (2d ed. 1995)

stated that these cases "present no clear pattern of decision,"[2] and divided new technology cases into those which limit the grant to the "unambiguous core meaning" of the media granted, and those which find new uses as "reasonably" falling within the "ambiguous penumbra" of such media, and hence included within the grant.[3] Whatever the merits of this

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(hereinafter *Goldstein*). The instant case deals only with unforeseen technologies.

[2] 3 M. Nimmer, NIMMER ON COPYRIGHT § 10.10[B] at 10-89 (1996) (hereinafter *Nimmer*).

[3] 3 *Nimmer* § 10.10[B]. *Compare Frohman v. Fitch*, 164 App.Div. 231, 149 N.Y.Supp. 633 (1914) (grant of stage rights held to include motion picture rights) *with Klein v. Beach*, 232 F. 240 (S.D.N.Y. 1916), *affirmed*, 239 F. 108 (2d Cir. 1917) (grant of stage rights did not include motion picture rights); *L.C. Page & Co. v. Fox Film Corp*, 83 F.2d 196 (2d Cir. 1936) (grant of motion picture rights included right to make "talkies") *with Kirk La Shelle Co. v. Paul Armstrong Co.*, 263 N.Y. 79, 188 N.E. 163 (1933) (grant of motion picture rights did not include right to make "talkies"); *Wexley v. KTTV, Inc.*, 108 F.Supp. 558 (S.D. Cal. 1952), *affirmed*, 220 F.2d 438 (9th Cir. 1954) (grant of motion picture rights included television rights) *with Ettore v. Philco Television Broadcasting Corp.*, 229 F.2d 481 (3d Cir.), *cert. denied*, 351 U.S. 926 (1956) (grant of motion picture rights did not include television rights); *Rooney v. Columbia Pictures Industries, Inc.*, 538 F.Supp. 211 (S.D.N.Y.), *affirmed*, 714 F.2d 117 (2d Cir. 1982), *cert. denied*, 460 U.S. 1084 (1983) (grant of right to distribute motion pictures "by any present or future methods or means" or "any other means now known or unknown" included video cassette rights) *with Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 1993 U.S. App. LEXIS 4068 (9th Cir. 1993) (unpublished decision), *vacated in part*, 24 F.3d 1088 (9th Cir. 1994) (grant of motion picture distribution rights by means of exhibition in theaters, on television, "and by any other technological, mechanical or electronic means, method or device now known or hereafter conceived or created" did not include video cassette rights); *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851 (9th Cir. 1988) (grant of motion picture and television rights did not include video cassette rights) with *Bourne v. Walt Disney Co.*, 68 F.3d 621 (2d Cir. 1995) (grant of motion picture rights included video cassette rights).

distinction,[4] the courts have neither created nor followed any meaningful or predictable rule as to when a given license should fall into one category or the other.[5] The one area that appeared to have some modicum of uniformity was the situation involving video cassettes, wherein the courts generally held that video cassette rights were not encompassed by a grant of motion picture or television rights made prior to the invention of video technology.[6] It was this one island of predictability in a wide ocean of uncertainty that was upset by the Second Circuit in the instant case.

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[4] Although Nimmer describes the latter approach as "preferred," this is not borne out by the cases, and has been the subject of repeated critical attack. *E.g.*, *Goldstein*, § 4.6.3.2 at 4:111-112 ("[t]he problem with this interpretational approach is that it pivots on the question-begging term, 'reasonably.' 'Reasonably,' if it is to mean anything, must have some external referent—either the parties' actual intentions . . . or some objective signpost. . . . Absent either referent, the term is little more than an *ipse dixit* that offers no guidance to parties in planning their transactions or, years later, in evaluating the merits of litigation").

[5] One observer, writing in 1954, stated that "the courts have not yet evolved a sound principle for dealing with the problems arising from new uses, nor even a reliable rule . . . ." M. Cohn, *Old Licenses and New Uses*, 19 Law & Contemp. Prob. 184, 184 (1954). The situation had not improved as of 1995, when another writer explained that "it is clear that courts' opinions are divergent and leave those charged with the responsibility of drafting license agreements with no clear indication of how any individual agreement will be interpreted." J. Nakos, *An Analysis of the Effect of New Technology on the Rights Conveyed by Copyright License Agreements*, 25 Cumb. L. Rev. 433, 455 (1995).

[6] *E.g.*, *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 853-55 (9th Cir.1988); *Rey v. Lafferty*, 990 F.2d 1379, 1387-91 (1st Cir.), *cert. denied*, 114 S.Ct. 94 (1993); *Bloom v. Hearst Entertainment, Inc.*, 33 F.3d 518, 524-25 (5th Cir. 1994); *Tele-Pac, Inc. v. Grainger*, 168 App.Div.2d 11, 570 N.Y.Supp.2d 521, *appeal dismissed*, 79 N.Y.2d 822, 580 N.Y.Supp.2d 201 (1991).

B. The Reason for the Split is the Quixotic Quest to Ascertain Dead Parties' "Intent."

The principal reason for the confusion (and concomitant lack of predictability) has been the courts' insistence on "finding" the parties' "intent" with regard to the unforeseeable technology in the language of the instrument in question, and/or through the admission of extrinsic evidence.[7] As Professor Nimmer explained:

> More often in fact there is no such single intent. Either each party had a different intent with respect to the disputed issue of scope, or more likely, there simply was no intent at all at the time of execution with respect to this issue insofar as it relates to whether the grant includes a new use developed at a later time. The very fact that we are most often dealing with a later developed technological process (even if it were known in some form at the time of execution) suggests that the parties' ambiguous phraseology masks an absence of intent rather than a hidden intent that the court simply must 'find.'

3 *Nimmer* § 10.10[B] at 10-91 - 10-92. As another commentator has noted, in the case of new technologies, because the new medium in question did not exist at the time of contracting, "there were no . . . rights to those [new] uses for which the parties should have negotiated." Nakos, *Effect of New Technology*, *supra* note 5, at 437. Consequently, any search for the parties' "intent" with regard to such unforeseen uses can only be an exercise in futility and a cause of confusion. *See Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d

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[7] *E.g.*, *Barris Indus., Inc. v. Worldvision Enter., Inc.*, 875 F.2d 1446, 1449 (9th Cir. 1989). Another, albeit less widespread, reason for the lack of coherence in the decisions has been the attempts of some courts to develop "specialized rule of construction" for new technology cases. *See* 3 *Nimmer* § 10.08 at 10-72 n.7; *see also* Professor Goldstein's analysis of the *Bartsch* case, which he describes as "an example of a failed attempt to craft special rules for new media cases." *Goldstein* § 4.6.3.2 at 4:111.

150, 155 (2d Cir. 1968), *cert. denied*, 393 U.S. 826 (1968) ("[w]ith Bartsch dead, his grantors apparently so, and the Warner Brothers lawyer understandably having no recollection of the negotiation, any effort to reconstruct what the parties actually intended nearly forty years ago is doomed to failure"); *Rey v. Lafferty*, 990 F.2d 1379, 1387 (1st Cir. 1993), *cert. denied*, 114 S.Ct. 94 (1993) (because video technology was not in existence at time license was granted, "it must be inferred that the parties did not specifically contemplate" whether video rights were included in rights granted); *see also* 2 E. Farnsworth, FARNSWORTH ON CONTRACTS § 7.15 (2d ed. 1990).

C. Clarification Is Needed.

In the absence of a clear decision from this Court, the appellate courts have floundered in their attempts to address ownership of rights in new technologies, leaving trial courts, copyright owners, licensees, and the negotiators of new copyright licenses without any predictability or guidance whatsoever with regard to the inclusion or exclusion of newly-developed means of exploitation in copyright licenses, and permitting results which frequently frustrate the very purpose upon which the copyright laws are predicated. Nowhere are the negative effects of this sad state of affairs more apparent than in the instant case. The manifest need for clarification from this Court will only be exacerbated by the emergence of the multimedia industry which, with its singular ability to exploit existing works in previously unforeseeable ways, has a pronounced need to gain access to the copyrights in such works. The time for clarification by this Court is now.

II.

UNIFORMITY AND PREDICTABILITY WOULD RESULT IF THE COURT WERE TO CLARIFY THAT COPYRIGHT LICENSES ARE TO BE CONSTRUED IN A MANNER WHICH FURTHERS THE POLICIES AND PURPOSES OF THE COPYRIGHT LAW

A. The Problem is Not One of Contract Interpretation.

The Second Circuit's aberrant decision, particularly when viewed in historical context, underscores the need for uniform guidelines for the interpretation of copyright licenses. The first step in formulating a uniform approach to the "new technologies" cases is to recognize that the "problem" is fundamentally *not* one of contract interpretation. As one astute observer noted over 40 years ago:

> The 'new use' problem is essentially not one of construction at all, and it should be so recognized and dealt with. The problem is created, not by the cupidity or contrariness of the parties, nor by the ambiguity of language, but by the advent of an unforeseen circumstance freighted with important economic significance. . . . [¶] [T]he terms of a licensing agreement cannot often furnish a clue to the solution of the problems raised by a new use. By definition the new use was not known when the instrument was drawn, and unless general terms are employed in the agreement the new use cannot have been within the contemplation of the parties. To attribute a meaning, unknown and unknowable to the parties, to the words they wrote in an agreement is indeed to revert to animism and to act as though ink and paper could bring about results independent of the purpose of the parties. . . . [¶] The question is no longer one of express contract. It is a question whether a court in the exercise of equitable discretion should exact new obligations and impose new duties.

M. Cohn, *Old Licenses and New Uses*, *supra* note 5, at 199-200. The Second Circuit failed to recognize that, where the original parties are dead and the technology at issue did not exist when the license was granted, it is foolhardy to frame the case as a factual question of the parties' intent. Judges, sitting as courts of equity, can best provide for uniform application of federal copyright policy under such circumstances.[8] *See ABKCO Music, Inc. v. Westminster Music, Ltd.*, 838 F. Supp. 153 (S.D.N.Y. 1993); *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150 (2d Cir.), *cert. denied*, 393 U.S. 826 (1968).

B. The Goal of Copyright License Construction, to Effectuate the Purposes of the Copyright Act, Can Best be Achieved by a Presumption that Rights Not Expressly Granted are Retained by the Copyright Owner.

Several courts have adopted the principles that, in new technology cases (at least where the original parties are unavailable), courts are required to exercise their equitable powers, rather than their fact-finding powers or those of the jury; that judges should presume that all rights not expressly granted in a copyright license are retained by the grantor; and that all ambiguities are to be resolved in favor of the grantor.[9]

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[8] For many of the reasons discussed recently by the Court in *Markman v. Westview Instruments, Inc.*, ___ U.S. ___, 96 Daily Journal D.A.R. 4642 (April 23, 1996), including their expertise in exegesis and familiarity with copyright law and policy, judges rather than juries are in a far better position to construe the meaning of copyright licenses in such cases.

[9] *E.g.*, *Ettore v. Philco Television Broadcasting Corp.*, 229 F.2d 481, 491 (3d Cir.), *cert. denied*, 351 U.S. 926 (1956); *Warner Bros. Pictures, Inc. v. CBS, Inc.*, 216 F.2d 945 (9th Cir. 1954), *cert. denied*, 348 U.S. 971 (1955); *Electronic Publishing Co. v. Zalytron Tube Corp.*, 151 U.S.P.Q. 613 (S.D.N.Y. 1966), *affirmed*, 376 F.2d 592 (2d Cir. 1967); *see* 3 *Nimmer* § 10.08 at 10-72; *see also Rey v. Lafferty*, 990 F.2d 1379 (1st Cir.), *cert. denied*, 114 S.Ct. 94 (1993); *Interstate Hotel Co. v. Remic Music Corp.*, 157 F.2d 744 (8th Cir. 1946).

These principles follow from the proposition that copyright licenses must be construed in accordance with the purposes underlying federal copyright law. *E.g., S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1989); *Cohen, supra*, 845 F.2d at 854.[10] As this Court has made clear on numerous occasions, the chief purpose of the Copyright Act is to promote the public welfare through the encouragement of artistic and literary creation by means of the grant of exclusive rights, and concomitant financial rewards, to authors and artists. As the Court explained in *Mazer v. Stein*, 347 U.S. 201, 219, 74 S. Ct. 460, 98 L. Ed. 630 (1954):

> The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance the public welfare through the talents of authors and inventors in science and useful arts.

Implementation of this "economic philosophy" must be the primary goal of all courts which attempt to interpret copyright licenses.

The panel majority's holding, particularly its tortured stretching of the first sale doctrine beyond the breaking point, ignores the teaching of *Mazer* and similar precedent, and significantly threatens the personal incentives by which Congress and the Framers intended to promote the public good. By granting the entirety of an unforeseen financial windfall solely to Disney, a non-exclusive licensee, the Second Circuit has provided a substantial disincentive to creators

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[10] These courts have held in effect that, while contract interpretation is a matter of state law, when the contract at issue is a copyright license the state rules of contract construction must be read through the veneer of the purposes underlying the federal Copyright Act. *E.g., S.O.S., supra*, 886 F.2d at 1088 ("we rely on state law to provide the canons of contractual construction, but only to the extent such rules do not interfere with federal copyright law or policy").

of new artistic works. *See* Nakos, *supra*, note 5, 25 Cumb. L. Rev. at 455 ("[i]f the rights to a new use are awarded to the licensee, the incentive to engage in creative pursuits may be thwarted").

It is entirely proper and certainly preferable for a court of equity to interpret copyright licenses in a manner that results in a just and fair sharing of new revenues generated by new technologies, and which thereby furthers the primary policy underlying copyright law. *See ABKCO Music, Inc. v. Westminster Music, Ltd.*, 838 F. Supp. 153, 156 (S.D.N.Y. 1993) ("the allocation of the risks and rewards of unforeseen 'new uses' to one party or another becomes an issue of policy which it is the responsibility of the courts to decide"); Cohn, *supra* note 5, 19 Law & Contemp. Prob. at 200 (a new use "is a source of revenue which is a windfall to both author and licensee, and no injustice appears in requiring that it be shared"). As a matter of equity and fairness, "the original licensee could not have bargained for, or paid for, the rights associated with video-cassette reproduction," and therefore "[t]he holder of the license should not . . . 'reap the entire windfall' associated with the new medium." *Cohen, supra*, 845 F.2d at 854. A presumption that the rights to new uses reside with the grantor accomplishes an equitable sharing of new revenues because, as a practical matter, the licensee is generally in the best position to exploit the work in the new medium, and the copyright owner and licensee will negotiate a new license fee in an amount that will ensure that both sides profit.[11]

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[11] Such a policy of ensuring that authors share in revenues generated by new technologies parallels the Congressional policy behind the Copyright Act's compulsory termination-of-transfers provision, 17 U.S.C. § 203, which intends that authors share in revenues from works the financial success of which could not have been anticipated at the time of the original transfer.

C. Such a Presumption Also Comports With Traditional Canons of Contract Construction.

In addition to furthering the purposes of copyright and promoting equity, such a presumption also comports with traditional canons of contract construction. The ancient maxim *expressio unius est exclusio alterius* suggests that all rights not expressly granted in a contract are reserved. This presumption is further validated by the venerable rule of contract construction which holds that, where two parties to a contract attach different meanings to a disputed term, there is no mutual assent, and no contract is formed—and hence disputed rights in an ambiguously referenced medium could not have been granted. *See* J. Calamari & J. Perillo, CONTRACTS § 3.12 (3d ed. 1987). The implied covenant of good faith and fair dealing, which implies into all contracts the requirement that neither party shall do anything to deprive the other of the fruits of the bargain, further supports a canon of copyright license construction which results in an equitable sharing of unforeseen revenues. To the extent traditional principles of contract interpretation favor the party with less bargaining power or business experience, it is generally the licensee who has the superior bargaining strength, as well as the expertise and experience in exploiting works in various media, and thus the ability to predict what uses might arise for a given work in the future. *See* Nakos, *supra* note 5, 25 Cumb. L. Rev. at 446. This, too, supports the presumption that rights to unenumerated future technologies remain with the copyright owner.

To conclude, the action by this Court which would best effectuate the constitutional and congressional purposes underlying the copyright laws; which accords with principles of equity and fairness; which most closely follows traditional canons of contract construction; and which would bring a measure of predictability and consistency to "new technology" cases which involve the interpretation of copyright licenses, would be to clarify and enforce the presumption that

all uses or media not in existence at the time of execution of the license are retained by the copyright owner.[12]

III.

THE SECOND CIRCUIT'S FAILURE TO INTERPRET THE COPYRIGHT LICENSE AT ISSUE IN LIGHT OF THE FEDERAL POLICIES AND PURPOSES UNDERLYING COPYRIGHT LAW RESULTED IN MULTIPLE ERRORS, WHICH HAVE CAUSED SUBSTANTIAL HARM TO THESE AMICI, AND WILL HARM OTHERS SIMILARLY SITUATED

A. Amici's Father, Not Disney, Created the Music in Question.

The Second Circuit's misapplication of the rules of copyright license construction and the first sale doctrine can be traced to the inordinate weight which it placed upon its mistaken belief that "the Compositions at issue here were created by Disney." 68 F.3d at 632. Disney *originally owned the copyrights by operation of law as an employer for hire*—but it did *not* create the compositions. Amici's father did. Even as an employee for hire (and the beneficiary under a royalties agreement), Harline was an artist whose creative efforts were meant to be encouraged by the Copyright Act.[13] By reading

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[12] It should further be clarified that all doubts should be resolved in favor of providing additional financial incentives to copyright owners, in keeping with the policies and purposes of the copyright law. *See* Nakos, *supra* note 5, 25 Cumb. L. Rev. at 454-55.

[13] Even though the music was created by Leigh Harline as an employee for hire, the policy arguments made above still apply. Although employers for hire should be adequately compensated to ensure that they are encouraged to hire creative people who will create works of art and thus further the Constitutionally mandated purposes of the Copyright Act, employees for hire who create copyrightable works must also be adequately compensated to ensure that they are willing to accept employ-

the 1930s agreements and the Copyright Act so as to give Disney the video rights to "its own songs," rather than applying the equitable rules of construction discussed above, the Second Circuit frustrated the purposes of the copyright law and granted the entire video windfall exclusively to Disney.[14] In so doing, the Second Circuit dispossessed amici of their rightful share of the video revenues from the *Pinocchio* and other video recordings of their father's music, and set a dangerous precedent which serves as a substantial disincentive to all potential artists and other creators of copyrightable works, in frustration of the fundamental purpose of the Copyright Act to encourage such creators.[15]

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ment with companies like Disney and create copyrightable works, rather than accept more lucrative employment in other, non-creative sectors.

[14] The Second Circuit's ruling has the effect of undervaluing the contributions of songwriters and other artists, as can be seen by the court's effective granting of a royalty-free license for the "Sing Along Songs" and "Simply Mad About the Mouse" videos, which contain no plot and little of the original animation, and which owe their success and even their existence to the musical contributions of Leigh Harline, whose heirs are receiving nothing from the sales thereof.

[15] The Second Circuit places an untenable burden on copyright owner/licensors when it states that the issue in future technology cases is whether the license "unambiguously excludes" the new technology from the grant of rights. 68 F.3d at 629. Several other circuit courts of appeal which have considered the question have correctly reached the opposite conclusion: that the policy and purposes underlying the Copyright Act require that copyright licenses be construed to *grant* rights to new technologies *only* when they do so unambiguously. *See Cohen, supra*, 845 F.2d at 854; *Ettore, supra*, 229 F.2d at 491. New technologies, like the Copyright Act's termination of transfers provision, create the opportunity for authors, composers, artists and computer software writers to negotiate new licenses and obtain fresh financial rewards for their artistic labors, thus providing the very incentive which is at the core of the Copyright Act. The Second Circuit's decision emasculates this incentive. Moreover, in the case of unforeseen technologies, "[t]here is no way to have the knowledge to exclude the use when drafting the contract," Nakos, *supra* note 5, at 440, and hence it is totally unfair to put the burden on Bourne or any copyright owner to "unambiguously exclude" an unknown technology.

B. The Assignment to Bourne was Broad, the License to Disney was Narrow, And Bourne Retained the Right to Reproduce the Music by All "Other Devices" Than [illegible]n.

By placing undue emphasis on the fact that Bourne obtained the copyrights from Disney, and mistakenly concluding from this fact that "[Bourne] has [already] received [its] reward," 68 F.3d at 632, the Second Circuit ignored the fact that Disney's assignment to Bourne was extremely broad and complete, while Bourne's license back to Disney was limited to specifically enumerated rights. Thus in paragraph 2 of the *Pinocchio* agreement (JAX 888-96) Disney unambiguously granted to Bourne's predecessor "all rights" in the music from *Pinocchio*:

> You agree to and do hereby convey to us all of the 'music' hereby affected and *all rights therein* throughout the world, including but not limited to the right to copyright the same in our name in the United States of America and throughout the world and the right to all renewals and extensions of copyright *for us to have and to hold the same absolutely and forever.* [Emphasis supplied.]

In contrast to paragraph 2's broad assignment of "all rights" in the music to Bourne, paragraph 3 of the *Pinocchio* agreement constituted a license back to Disney of limited, specifically-enumerated rights: the right to synchronize the music with Disney's "motion pictures" and to give public performances of those motion pictures (Pet. App. 99a).[16]

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[16] As consideration for the conveyance, Bourne agreed to pay Disney one-half of the revenues generated by Bourne's publication and licensing of the music (paragraph 5, Pet. App. 99a-100a). Thus the only "reward" which Bourne could receive was from the generation of license fees—which in the case of video cassettes amounted to one-half of nothing.

The grant of "all rights" in the music to Bourne, and a concurrent license back to Disney of limited rights, while not specifically addressing video rights, nevertheless reveals a *general* intent that the rights licensed to Disney should be construed narrowly. *See Rey v. Lafferty, supra*, 990 F.2d at 1387 (limited license of television rights appeared "to contemplate a comparatively limited and particular grant of rights," and hence supported holding that video rights were not included in grant of television rights); *see also ABKCO Music, supra*, 538 F. Supp. at 226-28. Thus, even when an intent-based approach is used, the circumstances and totality of the *Pinocchio* agreement indicate a mutual intention for Disney to have the limited and strictly circumscribed right only to use the music in *public performances* of its "motion pictures,"[17] and for Bourne to retain all other rights "for mechanical reproduction" of the music

> in the form of player rolls, including word rolls, records, discs, electrical transcriptions or synchronization in motion pictures, *or other devices for the mechanical reproduction of the said musical composition*[s] . . . .

Pinocchio agreement ¶ 5(b) (Pet. App. 100a) (emphasis supplied). This further supports the conclusion that the Second Circuit, in exercising its equitable powers to construe the agreement, should have found that video rights were among "all" the rights granted to Bourne, and not licensed back to Disney.[18]

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[17] The term "motion picture" referred in pre-television days exclusively to celluloid film projected onto screens in public theaters. *See Ettore, supra*, 229 F.2d at 488 ("[o]rdinarily a motion picture film is projected by a projector by rays of light cast on a screen. There is no direct interposition of electrical energy").

[18] It makes no difference that the music at issue was originally created by Disney employees for use in Disney motion pictures such as *Pinocchio*. Once Disney assigned the compositions to Bourne, and obtained a limited license to use the compositions in synchronization with its films, its position was no different than if it had simply obtained a standard synchronization license to use unrelated popular compositions

C. The Second Circuit's "Intent"-Based Approach to the New Technologies Question Led Inexorably to its Clearly Erroneous Distortion of the First Sale Docrine, Demonstrating *Reductio ad Absurdum* the Impropriety of This Approach.

The first sale doctrine, now codified at 17 U.S.C. § 109, is a judicially-created doctrine which was developed to limit the extent of the copyright monopoly. As Professor Nimmer has explained, the *raison d'être* of the doctrine, which limits the copyright owner's right to control distribution of individual copies of copyrighted works after title to such copies has passed to another, is that, once title has passed, "at this point, the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation." 2 *Nimmer* § 8.12[B] at 8-140.3. Thus, "once the copyright owner consents to the sale of particular copies or phonorecords of his work, he may not thereafter exercise the distribution right with respect to such copies or phonorecords." *Id.* at 8-140.4. The doctrine was therefore intended to ensure that the copyright owner could only exercise the right of distribution (or the right to sell individual copies) with respect to the initial sale of a copy of a copyrighted work, and could not control or restrict the resale or other further transfer or possession of such a copy. *Id.* at 8-140.5. The doctrine was never intended to act as a tool to permit judges to re-write copyright licenses, as the Second Circuit has done.

Amici will not repeat petitioner's arguments with regard to the Second Circuit's treatment of the first sale doctrine. How-

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in its motion pictures, as was done in such films as *American Graffiti*, *Bonnie & Clyde*, *Forrest Gump*, and many others. *See Gross v. Seligman*, 212 F. 930 (2d Cir. 1914). Such a license to use copyrighted musical compositions in synchronization with motion pictures does not include the right to synchronize such compositions with magnetic video tape images, nor the right to sell cassettes containing such video and audio information to the public for private home viewing. *See Cohen, supra*, 845 F.2d at 854-55; *Rey, supra*, 990 F.2d at 1390-91.

ever, two points derserve emphasis. First, as petitioner correctly points out, Disney had no right to distribute the *Pinocchio* and other video cassettes at issue because there was no *sale*, and hence no transfer of title, of such video cassettes from Bourne to Disney. Nimmer explains that "[m]ere authorized possession of a copy, if title in the tangible copy does not pass to the possessor, will not trigger the limitation of Section 109(a), and hence, will not affect the copyright owner's rights under Section 106(3)." *Id.* at 8-140.6.

Second, the court erroneously relied on its own precedent in *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2d Cir. 1963), when it held that the purposes of the doctrine had been satisfied in this case because Bourne had already 'received her reward.' This is truly nonsensical, because the "reward" to which the Second Circuit had made reference in *Platt & Munk* was the "reward" associated with the "first sale" of the particular copy in question. 315 F.2d at 854. In *Platt* there had been no actual "sale" because the defendant had manufactured the copies in question for plaintiff, then resold them pursuant to the New York Personal Property Law when plaintiff refused to pay for them, without ever taking actual title to the goods from the plaintiff. The Second Circuit held that the copyright owner could be deemed to have received a "reward" in the form of debt relief which was the equivalent to the "reward" which it would have obtained had it sold the copies at issue. *Id. Platt & Munk* therefore stands for the proposition that, under certain circumstances, even where there is not a literal "sale," one lawfully acquiring possession of a copy of a copyrighted work may nevertheless claim the benefits of the first sale doctrine provided the copyright owner received some kind of monetary reward or its equivalent in exchange for parting with the copy.

Here, Bourne received no "reward" at all with regard to the video cassettes containing Harline's music, because Disney simply made them and sold them without any consideration whatsoever to Bourne (or to Harline's heirs). Nimmer makes

clear that, assuming (as the Second Circuit did) that a defendant has the contractual right to *reproduce* copies (and hence came into lawful possession of such copies), but does *not* have the contractual right to *distribute* such copies (as Disney conceded it did not), the contract governs, and such a defendant may be held liable as an infringer for distributing such copies. 2 *Nimmer* § 8.12[B] at 8-146-47. The Second Circuit's reading of the first sale doctrine thus simply frustrates the central purpose of copyright: to permit authors to have for a limited time the exclusive right to their writings.

A grant of rights to *make* video cassettes, but not to *sell* them, as the Second Circuit correctly pointed out, would be worthless. But rather than making the intellectually indefensible leap to imply the right to sell by means of the first sale doctrine, the court should have realized that this result only confirms that the parties could *not* have intended to license video cassette rights in their 1939 license. The court's misapplication of the first sale doctrine demonstrates *reductio ad absurdum* the impropriety of the "intent"-based approach it took to this case. If the Second Circuit's construction of the first sale doctrine is permitted to stand, it will undermine the expectations of parties to copyright licenses in all media by permitting judges to arbitrarily re-write such licenses, and frustrate the intention of Congress when it enacted Section 109. Its decision must be reversed.

CONCLUSION

The Second Circuit's decision creates a split in the circuits, and casts into disarray what had been a clear rule of copyright license construction: that absent an explicit grant, or a clear future technologies clause, video rights remain with the copyright owner/licensor where video technology did not exist at the time of execution of the license. The Second Circuit's damage to predictability in this area is further compounded by the court's misapplication of the first sale doctrine to imply

a right to *sell* recordings of the copyrighted music where no such right had concededly been granted by the license. The net result of the decision below has been to substantially increase the level of uncertainty in an already confused area of the law, and to undermine the fundamental purpose of the copyright laws to promote the public welfare by encouraging the creation of works of authorship. Given the dangerous and manifestly incorrect precedent set by the Second Circuit, the glaring split in the circuits, and the inability of the lower courts after nearly a hundred years of trying to establish a uniform rule for interpreting copyright licenses in new technology cases, *amici curiae* respectfully submit that this is an appropriate case in which to grant a writ of certiorari and settle this problem once and for all.

Respectfully submitted,

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